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Fitch Affirms BBVA-HIP 3 SME CDO; off RWN Ratings

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Fitch Ratings-London/Madrid-20 November 2009: Fitch Ratings has today taken rating action on BBVA-Hipotecario 3, Fondo de Titulizacion de Activos (BBVA-HIP 3), a Spanish small- and medium-sized enterprise (SME) collateralised debt obligation (CDO) and removed them from the Rating Watch Negative (RWN).

The notes were placed on RWN in August 2009 pending full analysis after the revision of Fitch rating criteria for European granular corporate balance-sheet securitisations.

Class A2 (ISIN ES0314227010) affirmed at 'AAA'; off RWN; assigned Stable Outlook and Loss Severity Rating (LS) of 'LS-1'

Class B (ISIN ES0314227028) affirmed at 'A'; off RWN; assigned Negative Outlook and 'LS-1'

Class C (ISIN ES0314227036) affirmed at 'BB'; off RWN; assigned Negative Outlook and 'LS-3'

Using its updated Rating Criteria for European SME CLOS, Fitch deems the available credit enhancement to be commensurate with the existing ratings for each respective class of notes. The Negative Outlooks on the class B and class C reflect the increasing amount of loan arrears and defaults, the shortfall of the subordinated credit below its required amount, the high concentration in the real estate sector and dependence on future recoveries.

The transaction has experienced a high degree of de-leveraging to date. The current outstanding portfolio balance represents 33.8% of the initial portfolio balance. This led to a doubling in the level of credit enhancement for classes A2, B and C compared to closing in June 2005. Following a period of pro-rata amortisation, the transaction is paying its notes down sequentially again, thereby further increasing credit enhancement for all notes.

As of 31 October 2009, 90+ day delinquencies including defaults stood at 3.3% of the outstanding balance compared to 1.3% in October 2008. Additionally in September 2009, defaulted loans (loans in arrears for 12 months) peaked at 1.9% of the outstanding balance. As a result of the increasing amount of defaults, the subordinated credit, which provides the first loss threshold fell below its minimum required amount at the last payment date in August 2009, although the shortfall is limited at EUR1.1m and the available subordinated credit of approximately EUR20.6m continues to provide an appropriate level of credit enhancement to the class C notes.

Furthermore, all remaining portfolio loans are secured by first-lien real estate collateral with a weighted average loan-to-value ratio of 35.7%, which is expected to support material recoveries over time. Given the high percentage of mortgage collateral in this transaction, recoveries on defaulted loans is a key factor that will drive performance over time. While acknowledging the mortgage collateral in place, Fitch also considered several recovery rate sensitivity analysis as well as recoveries reported to date on existing funds. Due to the ongoing correction in the Spanish real estate market and growing illiquidity in the market, Fitch expects that recoveries on defaulted loans will remain under pressure and take longer to realize in the current environment.

In the analysis undertaken, assumptions on probability of default (PD) and loss severity were made with regards to current delinquencies as well as the performing portfolio. Fitch has assumed the probability of default of the unrated SME loans to be commensurate with the 'B' rating category. Delinquent loans are notched down depending on the length of time the loans have been in arrears. Recoveries for loans secured by first lien real estate were adjusted for property indexation and market value stress based on the updated SME CLO criteria.

Deal information and historical performance of each transaction are available on the agency's website at www.fitchratings.com

Applicable criteria 'Rating Criteria for European Granular Corporate Balance-Sheet Securitizations (SME CLO)', dated 23 July, 2009, 'Global Structured Finance Rating Criteria', dated 30 September, 2009 and 'Criteria for Structured Finance Loss Severity Ratings,' dated 17 February, 2009 are available on Fitch's website at www.fitchratings.com.

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