

**Rating Action: Moody's downgrades two classes of BBVA Hipotecario 3 Spanish SME ABS notes**

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Frankfurt am Main, December 05, 2012 -- Moody's Investors Service has today downgraded the ratings of two classes of notes in BBVA Hipotecario 3, FTA, primarily due to insufficient levels of credit enhancement given increased uncertainties in the current negative economic environment of Spain and expected performance deterioration. At the same time, Moody's confirmed the ratings of one class of notes. The transaction consists of Spanish small and medium-sized enterprise asset-backed securities (SME ABS) originated by Banco Bilbao Vizcaya Argentaria, S.A. (BBVA, rated Baa3/P-3). This rating action concludes the downgrade review initiated by Moody's in July 2012 on the various rated tranches. A detailed list of affected ratings is available towards the end of this press release.

**RATINGS RATIONALE**

"Today's rating action reflects the low levels of credit enhancement for the mezzanine and junior tranche of this transaction, given our negative forecast and severe downside scenarios for Spanish SME performance," says Gaston Wieder, a Moody's analyst for the transaction.

**-- PERFORMANCE**

BBVA Hipotecario 3 has generally performed better than Moody's Spanish SME index in terms of delinquency. However, arrear performance shows a steady deterioration. Based on the latest issuer report of 13 November, 90- to 360-day delinquencies in BBVA Hipotecario 3 represent 3.3% of the outstanding pool balance compared to a level of 1.3% one year earlier (see "Performance overview of BBVA Hipotecario 3, FTA", 26 November 2012).

Meanwhile, as of September 2012, Moody's Spanish SME 90- to 360-day delinquencies index stood at 4.6% (see "Spanish SME ABS Indices -- September 2012", 21 November 2012), compared to 2.8% a year earlier.

**-- KEY REVISED ASSUMPTIONS: CUMULATIVE DEFAULT, VOLATILITY AND RECOVERY**

Given the recent deterioration of performance, the transaction has now reached the level of defaults (using a proxy of 90-day delinquencies) assumed for the life of the deal. At the end of October 2012, cumulative 90+ day delinquencies stood at 3.6% of the original balance, compared to a current default assumption of 3.5% over the life of the transaction. Meanwhile, the pool factor of total securitised assets was 12% and the reserve fund was drawn.

Moody's has increased the mean default assumption to 11% of the current portfolio, corresponding to an average rating proxy of B1 for the portfolio quality with an estimation of remaining weighted-average life (WAL) of 2.8 years. When converting this number into a cumulative mean default rate of the original balance, the revised expected cumulative default rate is 5%.

The pool, which consists entirely of mortgage loans granted to corporates and individuals, has an effective number of 442 borrowers with the top 10 obligors representing 8.9%. The recovery rate assumption is now 55% (fixed recovery rate), compared to the currently assumed 60% stochastic recovery rate, reflecting ongoing and increasing difficulty in liquidating the real estate collateral of the loans. Moody's has also increased its volatility assumption (coefficient of variation, CoV) to 101.5%, considering the increased uncertainties for further performance deterioration in the current economic cycle. Despite the revised assumptions, Moody's confirmed the ratings of the Class A2 notes as their credit enhancement level of 43% (as of latest payment date) was sufficient to off-set the lower recovery rate and higher volatility assumptions, while the class B and C notes were downgraded to Baa3(sf) and B3(sf) from A3(sf) and Ba3(sf), respectively.

**-- COUNTERPARTY RISK**

Following the downgrade of Spanish banks, some remedies have been put in place in order to mitigate the increased counterparty risk in BBVA Hipotecario 3. The issuer account bank is held at BBVA while a guarantee has been provided by the Spanish branch of Societe Generale (SocGen, A2/P-1). Besides, BBVA acts as swap

counterparty of an interest rate hedging arrangement. Based on the provided information, BBVA has been posting cash collateral on a weekly basis and this cash is held at an account with SocGen (Spanish branch). In addition, SocGen has taken over the role of paying agent.

On 21 August 2012, Moody's released a Request for Comment seeking market feedback on proposed adjustments to its modelling assumptions. These adjustments are designed to account for the impact of rapid and significant country credit deterioration on structured finance transactions. If the adjusted approach is implemented as proposed, the rating of the notes affected by today's rating action should not be negatively affected. See "Approach to Assessing the Impact of a Rapid Country Credit Deterioration on Structured Finance Transactions", ([http://www.moody.com/research/Approach-to-Assessing-the-Impact-of-a-Rapid-Country-Credit--PBS\\_SF294880](http://www.moody.com/research/Approach-to-Assessing-the-Impact-of-a-Rapid-Country-Credit--PBS_SF294880)) for further details regarding the implications of the proposed methodology changes on Moody's ratings.

#### PRINCIPAL METHODOLOGIES

The methodologies used in this rating were "Moody's Approach to Rating CDOs of SMEs in Europe", published in February 2007, "Refining the ABS SME Approach: Moody's Probability of Default assumptions in the rating analysis of granular Small and Mid-sized Enterprise portfolios in EMEA", published in March 2009, and "Moody's Approach to Rating Granular SME Transactions in Europe, Middle East and Africa", published in June 2007. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of these methodologies.

Moody's used its excel-based cash flow model, Moody's ABSROM™, as part of its quantitative analysis of the transaction. Moody's ABSROM™ model enables users to model various features of a standard European ABS transaction including: (1) the specifics of the default distribution of the assets, their portfolio amortisation profile, yield or recoveries; and (2) the specific priority of payments, triggers, swaps and reserve funds on the liability side of the ABS structure. Moody's ABSROM™ User Guide is available on Moody's website and covers the model's functionality, as well as providing a comprehensive index of the user inputs and outputs.

#### -- SENSITIVITY ANALYSIS

Moody's analysed various sensitivities of default rate, recovery rates and volatility levels to test the robustness of its revised ratings. In particular, if the revised levels of volatility were to be increased further to 111.3%, the rating of the senior and junior tranches would remain unchanged while the rating of the Class B notes would fall by one notch. As such, Moody's analysis encompasses the assessment of stressed scenarios.

#### LIST OF AFFECTED RATINGS

Issuer: BBVA Hipotecario 3, FTA

...EUR55.9M B Notes, Downgraded to Baa3 (sf); previously on Jul 2, 2012 A3 (sf) Placed Under Review for Possible Downgrade

...EUR18.9M C Notes, Downgraded to B3 (sf); previously on Jul 2, 2012 Ba3 (sf) Placed Under Review for Possible Downgrade

...EUR925.7MA2 Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

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Information sources used to prepare the rating are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

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Yuezhen Wang  
Associate Analyst  
Structured Finance Group  
Moody's Deutschland GmbH  
An der Welle 5  
Frankfurt am Main 60322  
Germany  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Carole Gintz  
VP - Senior Credit Officer  
Structured Finance Group  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Gaston Wieder  
Analyst

Structured Finance Group  
Moody's Investors Service Espana, S.A.  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:  
Moody's Deutschland GmbH  
An der Welle 5  
Frankfurt am Main 60322  
Germany  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454



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