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Various Rating Actions Taken On All Classes Of Notes In BBVA Hipotecario 3 Following European SME CLO Criteria Update

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OVERVIEW

- We have reviewed the performance of BBVA Hipotecario 3, using data from the January 2013 trustee report, and have performed our credit and cash flow analysis applying our updated European SME CLO criteria and our 2012 counterparty criteria.
- On Jan. 17, 2013, when our updated European SME CLO criteria became effective, we placed on CreditWatch negative our ratings on the class B and C notes.
- Today, we have affirmed our 'AA- (sf)' rating on the class A2 notes.
- At the same time, we have lowered to 'BBB+ (sf)' from 'A (sf)' our rating on the class B notes and to 'BB+ (sf)' from 'BBB (sf)' our rating on the class C notes.
- BBVA Hipotecario-3 is a cash flow CLO transaction that securitizes loans to SMEs. The collateral pool comprises secured loans. The transaction closed in June 2005.

LONDON (Standard & Poor's) April 9, 2013--Standard & Poor's Ratings Services today took various credit rating actions on all classes of notes in BBVA Hipotecario 3, Fondo de Titulizacion de Activos.

Specifically, we have:

- Affirmed our 'AA- (sf)' rating on the class A2 notes;
- Lowered to 'BBB+ (sf)' from 'A (sf)' and removed from CreditWatch

- negative our rating on the class B notes; and
- Lowered to 'BB+ (sf)' from ' BBB (sf)' and removed from CreditWatch negative our rating on the class C notes (see list below).

Today's rating actions follow the application of our updated criteria for European collateralized loan obligations (CLOs) backed by small and midsize enterprises (SMEs) and our 2012 counterparty criteria, as well as our assessment of the transaction's performance using the latest available trustee report and loan-level data (dated January 2013) (see "European SME CLO Methodology And Assumptions," published on Jan. 10, 2013, and "Counterparty Risk Framework Methodology And Assumptions," published on Nov. 29, 2012).

On Jan. 17, 2013, when our updated European SME CLO criteria became effective, we placed on CreditWatch negative our ratings on the class B and C notes (see "Ratings On 100 Tranches In 33 European SME CLO Transactions Placed On CreditWatch Negative Following Criteria Update").

CREDIT ANALYSIS

With further deleveraging of the notes, obligor concentration risk in the collateral pool is higher when compared with all of our previous reviews. The underlying pool is highly seasoned. Loans originated in 2003 and 2004 now represent the highest proportion of the current outstanding pool. According to the January 2013 trustee report, 12+ months cumulative defaults account for 2.02% of the closing pool balance (compared with 1.52% a year ago). The level of 12+ months cumulative defaults observed for 2003 and 2004 vintages (2.04% and 3.00%, respectively) are higher than the pool average (2.02%). The recovery rates reported on these defaults are in the range of 55%-60%. The reserve fund is at €14.6 million.

We have applied our updated European SME CLO criteria to determine the scenario default rates (SDRs) for this transaction.

We categorize the originator as moderate (based on tables 1, 2, and 3 in our criteria). We have taken into account Spain's Banking Industry Country Risk Assessment (BICRA) score (as the country of origin for these SME loans is Spain) and our observations from the management meeting held with the originator in November last year. This resulted in a downward adjustment of one notch to the 'b+' archetypical European SME average credit quality assessment of the pool. As a result, our average credit quality assessment of the pool is 'b'.

We further applied a portfolio selection adjustment of minus one notch to the 'b' credit quality assessment, which we based on our review of the current pool characteristics, compared with the originator's other transactions. As a result, the average credit quality assessment of the portfolio to derive our 'AAA' SDR was 'b-'.

We also reviewed the originator's internal credit scores and used them as inputs to our European SME Mapping Model, to determine the portfolio's 'AAA'

SDR. However, due to the lack of data available on the validation of the banks' internal rating scores with the actual performance of the loans and their transition across various internal ratings, we only considered this 'AAA' SDR for our sensitivity analysis.

We have reviewed historical originator default data, and have assessed Spain's current market trends and developments, macroeconomic factors, and the way these factors are likely to affect the loan portfolio's creditworthiness.

As a result of this analysis, our 'B' SDR is 4%.

The SDRs for rating levels between 'B' and 'AAA' are interpolated in accordance with our European SME CLO criteria.

RECOVERY RATE ANALYSIS

At each liability rating level, we assumed a weighted-average recovery rate (WARR) by considering the asset type (secured/unsecured), its seniority (first lien/second lien), and the country recovery grouping (see table 7 in "European SME CLO Methodology And Assumptions") and observed historical recoveries. We also factored in the recoveries from the historical defaulted assets, and industry and regional concentration of the current pool, to derive our recovery rate assumptions to be applied in our cash flow analysis.

As a result of this analysis, our WARR assumption in a 'AA' scenario was 24.0%. The recovery rates at more junior rating levels were higher (as outlined in our criteria).

CASH FLOW ANALYSIS

We subjected the capital structure to various cash flow scenarios, incorporating different default patterns, recovery timing, and interest rate curves to generate the minimum break-even default rate (BDR) for each rated tranche in the capital structure. The BDR is the maximum level of gross defaults that a tranche can withstand and still fully repay the noteholders, given the assets and structure's characteristics. We then compared these BDRs with the SDRs outlined above.

COUNTERPARTY RISK

The transaction features an interest rate swap where the issuer pays the swap counterparty the total interest received from the loans. In return, the issuer receives from the swap counterparty an amount equivalent to the weighted-average coupon of the notes plus 65 basis points per year on the performing loans (up to three months in arrears).

Banco Bilbao Vizcaya Argentaria, S.A. (BBB-/Negative/A-3) is the swap counterparty. We have reviewed the swap counterparty's downgrade provisions, and, in our opinion, they do not fully comply with our 2012 counterparty criteria. Therefore, we conducted our cash flow analysis without giving

benefit to the swap above a 'BBB' rating level--our long-term issuer credit rating on the swap counterparty plus one notch.

The credit enhancement available to the class B and C notes is commensurate with lower ratings than previously assigned. We have therefore lowered to 'BBB+ (sf)' from 'A (sf)' and to 'BB+ (sf)' from 'BBB (sf)' our ratings on the class B and C notes, respectively, and have removed them from CreditWatch negative.

The credit enhancement available to the class A2 notes is commensurate with its current rating. We have therefore affirmed our 'AA- (sf)' rating on the class A2 notes.

BBVA-3 is a cash flow CLO transaction that securitizes loans to Spanish SMEs. The collateral pool comprises secured loans. The transaction closed in June 2005.

STANDARD & POOR'S 17G-7 DISCLOSURE REPORT

SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties and enforcement mechanisms in issuances of similar securities. The Rule applies to in-scope securities initially rated (including preliminary ratings) on or after Sept. 26, 2011.

If applicable, the Standard & Poor's 17g-7 Disclosure Report included in this credit rating report is available at <http://standardandpoorsdisclosure-17g7.com>

RELATED CRITERIA AND RESEARCH

Related Criteria

- European SME CLO Methodology And Assumptions, Jan. 10, 2013
- Counterparty Risk Framework Methodology And Assumptions, Nov. 29, 2012
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Update To Global Methodologies And Assumptions For Corporate Cash Flow And Synthetic CDOs, Sept. 17, 2009

Related Research

- Europe 2013: Recession Strikes Again, Feb. 25, 2013
- Ratings On 100 Tranches In 33 European SME CLO Transactions Placed On CreditWatch Negative Following Criteria Update, Jan. 17, 2013
- European Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, March 14, 2012
- Global Structured Finance Scenario And Sensitivity Analysis: The Effects

Of The Top Five Macroeconomic Factors, Nov. 4, 2011

RATINGS LIST

Class	Rating
To	From

BBVA Hipotecario 3, Fondo de Titulizacion de Activos
€1.45 Billion Mortgage-Backed Floating-Rate Notes

Ratings Lowered And Removed From CreditWatch Negative

B	BBB+ (sf)	A (sf)/Watch Neg
C	BB+ (sf)	BBB (sf)/Watch Neg

Rating Affirmed

A2	AA- (sf)
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