



Fitch Upgrades BBVA Hipotecario 3, F.T.A. Ratings Endorsement Policy

15 May 2014 11:42 AM (EDT)

Fitch Ratings-London-15 May 2014: Fitch Ratings has upgraded BBVA Hipotecario 3, F.T.A's notes, as follows:

EUR41.3m Class A2 (ISIN ES0314227010): affirmed at 'AA+sf'; Outlook Stable

EUR46.5m Class B (ISIN ES0314227028): upgraded to 'A+sf' from 'Asf'; Outlook revised to Positive from Stable

EUR15.7m Class C (ISIN ES0314227036): upgraded to 'BBBsf' from 'BBsf'; Outlook Stable

BBVA Hipotecario 3, F.T.A. is a static securitisation of a EUR1.45bn initial portfolio of Spanish SME loans originated and serviced by Banco Bilbao Vizcaya Argentaria (BBVA; BBB+/Stable/F2).

KEY RATING DRIVERS

The class B notes' upgrade reflects an increase in the credit enhancement over the last 12 months following the transaction's deleveraging. Credit enhancement for the class B notes increased to 31.6% in March 2014 from 20% in April 2013. The class B notes' rating is currently capped at 'A+sf' as Fitch expects interest to be deferred in higher rating scenarios. Interest deferral on this tranche would, however, become less likely once the class A2 notes are fully redeemed. In light of the current amortisation rate of class A2, the Outlook on the class B notes has been revised to Positive.

The upgrade of the class C notes reflects an increase in credit enhancement to 16.43% in March 2014 from 10.13% in April 2013.

The portfolio has amortised to 7.48% of its original balance in March 2014 from 10.85% in April 2013. The portfolio has exhibited stable performance over the last 12 months. Loans in arrears of more than 90 days account for 1.65% of non-defaulted assets, down from 2% a year ago. The balance of defaulted assets in the portfolio fell to EUR11.2m from EUR11.5m during the same period. The transaction benefits from high realised recoveries. The achieved weighted average recovery rate currently stands at 64.8%, which compares favourably with recoveries observed in other Spanish SME transactions.

The portfolio continues to be highly exposed to the Spanish real estate sector. However, Fitch accounted for this in its analysis by stressing the probability of default associated with loans in this sector.

The class A2 notes' rating is capped at 'AA+sf'. The class was recently upgraded, following Fitch's recent upgrade of the Spanish sovereign (see "Fitch Upgrades Spanish Consumer and SME SF Transactions", dated 30 April 2014 at fitchratings.com).

RATING SENSITIVITIES

Applying a 1.25x default rate multiplier or a 0.75x recovery rate multiplier to all assets in the portfolio would not result in a downgrade of the notes.

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Source of information: The information used to assess these ratings was sourced from periodic investor reports and the trustee.

Applicable criteria 'Criteria for Rating Granular Corporate Balance-Sheet Securitisations (SME CLOs)', dated 05 March 2014; 'Counterparty Criteria for Structured Finance and Covered Bonds', dated 13 May 2013, are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Criteria for Rating Granular Corporate Balance-Sheet Securitisations (SME CLOs)
Counterparty Criteria for Structured Finance and Covered Bonds

Additional Disclosure

Solicitation Status

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