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## Rating Raised On Spanish RMBS Transaction BBVA RMBS 14's Class A Notes Following Sovereign Upgrade

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### OVERVIEW

- On Oct. 2, 2015, we raised to 'BBB+' from 'BBB' our long-term sovereign rating on Spain.
- Following the application of our updated criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating, we have raised to 'A (sf)' from 'A- (sf)' our rating on BBVA RMBS 14's class A notes.
- BBVA RMBS 14 is a Spanish RMBS transaction, which closed in November 2014. The collateral comprises Spanish first-lien VPO mortgage loans originated under two government-sponsored programs, for which BBVA is the originator and servicer.

MADRID (Standard & Poor's) Feb. 8, 2016--Standard & Poor's Ratings Services today raised to 'A (sf)' from 'A- (sf)' its credit rating on BBVA RMBS 14, Fondo de Titulizacion de Activos' class A notes. The class B notes remain unaffected.

Today's upgrade follow our Oct. 2, 2015 raising to 'BBB+' from 'BBB' of our long-term sovereign rating on Spain (see "Kingdom of Spain Upgraded To 'BBB+' On Reforms; Outlook Stable," published on Oct. 2, 2015).

We have applied our updated criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating (RAS criteria),

our Spanish residential mortgage-backed securities (RMBS) criteria, and our current counterparty criteria (see "Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance," published on May 29, 2015, "Italy And Spain RMBS Methodology And Assumptions," published on Sept. 18, 2014, and "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013).

Under our RAS criteria, we applied a hypothetical sovereign default stress test to determine whether a tranche has sufficient credit and structural support to withstand a sovereign default and so repay timely interest and principal by legal final maturity.

Our RAS criteria designate the country risk sensitivity for RMBS as moderate. Under our RAS criteria, this transaction's notes can therefore be rated four notches above the sovereign rating, if they have sufficient credit enhancement to pass a minimum of a severe stress. However, if all six of the conditions in paragraph 44 of the RAS criteria are met, we can assign ratings to the senior-most class of notes up to a maximum of six notches (two additional notches of uplift) above the sovereign rating, subject to credit enhancement being sufficient to pass an extreme stress (see "Understanding Standard & Poor's Rating Definitions," published on June 3, 2009).

Following the application of our RAS criteria, our RMBS criteria, and our current counterparty criteria, we have determined that our assigned rating on each class of notes in this transaction should be the lower of (i) the rating as capped by our RAS criteria, (ii) the rating that the class of notes can attain under our RMBS criteria, and (iii) the rating as capped by our current counterparty criteria.

Credit enhancement for the class A notes, considering nondefaulted assets and the available reserve fund, has increased to 15.8% from 14.0% at closing (see "New Issue: BBVA RMBS 14, Fondo de Titulizacion de Activos," published on Nov. 25 2014).

In line with other "Viviendas de Protección Oficial" (VPO) transactions, delinquencies (0.15% as of the November 2015 loan-level report) have remained stable, and are well below our Spanish RMBS index (see "Spanish RMBS Index Report Q2 2015: Index Composition Boosts Collateral Performance Slightly," published on Sept. 11, 2015). No defaults have accrued since closing.

Following the application of our credit and cash flow stresses under our RMBS criteria, we consider that the available credit enhancement for the class notes is commensurate with a 'A+' rating. However, they only pass stresses at 'A' rating level under our RAS criteria. Consequently, the maximum uplift from the long-term sovereign rating is two notches. We have therefore raised to 'A (sf)' from 'A- (sf)' our rating on the class A notes.

The transaction is exposed to counterparty risk through Banco Bilbao Vizcaya Argentaria S.A. (BBVA) as bank account provider, paying agent, and servicer. Under our current counterparty criteria, the exposure to BBVA as bank account

provider is classified as bank account (limited). Under these criteria, the transaction's documented rating requirements for BBVA under its different roles and its replacement mechanisms adequately mitigate its exposure to counterparty risk at the 'A' rating level.

We also consider credit stability in our analysis (see "Methodology: Credit Stability Criteria," published on May 3, 2010). To reflect moderate stress conditions, we adjusted our weighted-average foreclosure frequency (WAFF) assumptions by assuming additional arrears of 8% for one- and three-year horizons, for 30-90 days arrears, and 90+ days arrears. This did not result in our ratings deteriorating below the maximum projected deterioration that we would associate with each relevant rating level, as outlined in our credit stability criteria.

In our opinion, the outlook for the Spanish residential mortgage and real estate market is not benign and we have therefore increased our expected 'B' foreclosure frequency assumption to 3.33% from 2.00%, when we apply our RMBS criteria, to reflect this view (see "Outlook Assumptions For The Spanish Residential Mortgage Market," published on Sept. 18, 2014). We base these assumptions on our expectation of continuing high unemployment in 2016.

Spain's economic recovery is gaining momentum, but is currently only supporting a marginal improvement in the collateral performance of transactions in our Spanish RMBS index. Despite positive macroeconomic indicators and low interest rates, persistent high unemployment and low household income ratios continue to constrain the RMBS sector's nascent recovery, in our view.

We expect severe arrears in the portfolio to remain vulnerable to downside risks. These include high unemployment and fiscal tightening. On the positive side, we expect interest rates to remain low for the foreseeable future and stronger economic growth.

BBVA RMBS 14 is a Spanish RMBS transaction, which closed in November 2014. The pool comprises solely mortgage loans for the acquisition of protected properties or VPOs originated by BBVA. A VPO loan is a Spanish mortgage loan granted as part of a government sponsored program aimed at assisting lower-income households. The securitized loans in this transaction are part of the "Plan Estatal de Vivienda 2005-2008" and "Plan de Vivienda y Rehabilitación 2009-2012" programs. At closing, approximately 40.7% of the borrowers benefit from available subsidies through monthly payments from national and local authorities.

#### RELATED CRITERIA AND RESEARCH

##### Related Criteria

- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, May 29, 2015
- Criteria For Global Structured Finance Transactions Subject To A Change

## *Rating Raised On Spanish RMBS Transaction BBVA RMBS 14's Class A Notes Following Sovereign Upgrade*

In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD, March 2, 2015

- Methodology For Assessing Mortgage Insurance And Similar Guarantees And Supports In Structured And Public Sector Finance And Covered Bonds, Dec. 7, 2014
- Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Italy And Spain RMBS Methodology And Assumptions, Sept. 18, 2014
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- Methodology: Credit Stability Criteria, May 3, 2010
- Understanding Standard & Poor's Rating Definitions, June 3, 2009

### Related Research

- The Consumer-Led Eurozone Upswing Is Resisting Routs Abroad, Jan. 11, 2016
- Growth In Europe Is On Track, But Geopolitical Risks Have Risen, Dec. 2, 2015
- Eurozone Recovery: Hangin' In There Despite Weak Foreign Demand, Nov. 25, 2015
- Banco Santander And Banco Bilbao Vizcaya Argentaria Upgraded On Spain Action; Outlook Stable; Some Banks Affirmed, Oct. 6, 2015
- Kingdom Of Spain Upgraded To 'BBB+' On Reforms; Outlook Stable, Oct. 2, 2015
- Eurozone Economic Outlook: Steady For Now, Despite Slower World Trade, Sept. 30, 2015
- Spanish RMBS Index Report Q2 2015: Index Composition Boosts Collateral Performance Slightly, Sept. 11, 2015
- 2015 EMEA RMBS Scenario And Sensitivity Analysis, Aug. 6, 2015
- Low Lending Rates And Stronger Economic Growth Are Reviving Europe's Housing Markets, July 30, 2015
- New Issue: BBVA RMBS 14, Fondo de Titulizacion de Activos, Nov. 25, 2014
- Outlook Assumptions For The Spanish Residential Mortgage Market, Sept. 18, 2014
- European Structured Finance Scenario And Sensitivity Analysis 2014: The Effects Of The Top Five Macroeconomic Factors, July 8, 2014
- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014

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