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April 20, 2011

New Issue: BBVA Consumo 4, Fondo de Titulización de Activos

€1.1 Billion Consumer Floating-Rate Notes

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New Issue: BBVA Consumo 4, Fondo de Titulización de Activos

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Ratings Detail

Class	Rating*	Amount (mil. €)	Available credit support (%)¶	Interest	Legal final maturity
A	AA- (sf)	840.68	39.21	Three-month EURIBOR plus 30 bps	June 23, 2023
B	NR	162.30	23.03	Three-month EURIBOR plus 80 bps	June 23, 2023

*Standard & Poor's ratings address timely interest and principal. We assigned this rating on March 28, 2011. ¶This credit support uses current figures. The credit support available at closing included the fully funded €231 million reserve fund. EURIBOR—Euro interbank offered rate.

Transaction Participants	
Originators	Banco Bilbao Vizcaya Argentaria S.A. and BBVA Finanzia Banco de Credito S.A.
Arranger	Banco Bilbao Vizcaya Argentaria S.A. and Europea de Titulización S.G.F.T. S.A.
Administrators/servicers	Banco Bilbao Vizcaya Argentaria S.A. and BBVA Finanzia Banco de Credito S.A.
Security trustee	Europea de Titulización S.G.F.T., S.A.
Interest swap counterparty	Banco Bilbao Vizcaya Argentaria S.A.
Transaction account (including GIC) provider	Banco Bilbao Vizcaya Argentaria S.A.

GIC—Guaranteed investment contract.

Supporting Rating

Institution/role	Rating
Banco Bilbao Vizcaya Argentaria S.A. as transaction account provider and swap provider	AA/Negative/A-1+

Transaction Key Features*	
Closing date	Dec. 11, 2009
Collateral	Consumer loans granted to individuals resident in Spain
Principal outstanding (mil. €)	1,009.0
Country of origination	Spain
Concentration	23.74% of the pool is concentrated in Catalonia, 17.71% in Andalucia, and 11.44% in Madrid
Average loan size balance (€)	7.933,41
Weighted-average seasoning (months)	31.98
Weighted-average asset life remaining (months)	51.51
Weighted-average interest rate (%)	8.58
Redemption profile	French amortization
Cash reserve (%)	23.03

*All collateral data are based on the actual pool as of Feb. 28, 2011.

Transaction Summary

On March 28, 2011, Standard & Poor's Ratings Services assigned a credit rating to BBVA Consumo 4, Fondo de Titulización de Activos' €840.68 million asset-backed floating-rate class A notes. At closing, BBVA Consumo 4 also issued unrated class B notes. This transaction closed in December 2009, but we were not engaged to rate the notes at that time.

At closing, BBVA Consumo 4 sold the notes to the noteholders and used the proceeds to buy consumer loans from BBVA Finanzia Banco de Credito S.A. (BBVA Finanzia) and Banco Bilbao Vizcaya Argentaria S.A. (BBVA; AA/Negative/A-1+), the originators. The securitized portfolio comprises unsecured loans made to individuals resident in Spain.

At closing, the transaction included an initial revolving period, effective until the payment date of September 2011. During this time, all principal proceeds were used to buy new assets for the pool. The transaction documents specify that the revolving period may be terminated early if certain performance-related triggers are met (see "Revolving period and early amortization"). If loans in arrears of more than 90 days comprise more than 2.20% of the outstanding collateral balance, the revolving period will end and the notes will start to amortize. As of the last calculation date, 90+ day arrears comprised 2.66% of the outstanding collateral balance.

Therefore, as of the March 23, 2011 payment date, the class A notes have amortized to €840.68 million from an initial amount of €937.70 million.

As in other Spanish transactions, there is an option in the transaction documents for BBVA to set up a contingent commingling reserve if the short-term rating on BBVA, as servicer, falls below 'BBB' with a short-term rating of 'A-2', or otherwise 'BBB+'.

About 77% of the securitized portfolio has been originated since 2008.

Notable Features

This is the third transaction that we have rated in which BBVA and BBVA Finanzia originated the collateral portfolio. The previous two securitizations were BBVA Consumo 3, Fondo de Titulización de Activos, which closed on April 16, 2008, and BBVA Consumo 5, Fondo de Titulización de Activos, which closed on Dec. 21, 2010.

Strengths, Concerns, And Mitigating Factors

Strengths

- BBVA has unconditional, irrevocable, and joint and several surety—expressly waiving the benefit of discussion, priority, and division—for fulfilling BBVA Finanzia's obligations as servicer.
- BBVA is one of the leading lenders in the Spanish loan market and is an experienced servicer of several residential mortgage-backed and asset-backed (RMBS and ABS) securitizations.
- The pool is diversified and granular, with 127,187 loans. The average loan balance is €7,933.
- There is limited geographic concentration risk, as no single region in Spain accounts for more than 25% of the collateral.
- The weighted-average interest rate is relatively high, in our view, at 8.58%.

- There is adequate credit enhancement for the target rating of 'AA-'. Subordination from the class B bond, the cash reserve, which was fully funded at closing using the proceeds of the subordinated loan, and the excess spread are available to cover any interest or principal shortfalls.
- Loans with arrears of more than 18 months past due are amortized by trapping excess spread. This speeds up the amortization of the notes.
- All the loans in the pool are amortizing.
- The revolving period has terminated and the class A notes have started amortizing.
- The rating on BBVA, in combination with the downgrade language in the transaction documents, mitigates the counterparty risk arising from the exposure to the bank accounts provider and swap provider to a 'AA-' rating level.

Concerns and mitigating factors

- In determining the default rate for this transaction, we used the originators' vintage curves up to December 2009, static data on existing consumer securitizations, and dynamic data on both originating entities' consumer books until December 2010. We do not have vintages updated until December 2010 for this transaction. We have therefore taken an approach in our analysis to determine the default rate base case, based on the information provided. Taking into account the limited data provided by the originators, we applied a multiple at the high end of the rating range to the default rate base case at the 'AA' level. This is a more conservative stress than for other transactions we rate with the same type of underlying assets. This is a similar approach we took when rating BBVA Consumo 5, when we faced similar issues in relation to the data provided.
- The transaction documents classify loans as defaulted after 18 months in arrears. This is a more lenient definition of defaults than the 12-month definition usually used for assets backing Spanish securitizations. As a consequence, loans will be artificially written off by trapping excess spread at a later stage. We factored this in our cash flow analysis.
- The underlying collateral is referenced to fixed interest rates. The notes pay three-month EURIBOR. An asset swap is in place to cover the mismatch between assets and liabilities.
- There was an initial revolving period of one year and 10 months, which could alter the credit quality and characteristics of the portfolio. The eligibility criteria ensured that the characteristics of the portfolio remain within established parameters during the revolving period. The individual loan and portfolio-wide eligibility criteria were quite protective, in our view, and aimed to prevent pool quality from deteriorating during the revolving period. The revolving period ended on the payment date in March, 2011, as the trigger related to arrears was breached (see "Revolving period and early amortization").
- The cash reserve is amortizing, resulting in a potential reduction of credit enhancement when the structure may need it. For example, if the pool experiences high prepayments, there may be a risk of adverse selection, so that loans of a lesser credit quality comprise more of the pool than at closing. The cash reserve does not amortize for the first two years of the transaction. It does not reduce when arrears exceed 1%, or if the cash reserve is not at its required level on the previous interest payment date (IPD). We have taken this structural feature into account in our cash flow analysis (see "Reserve fund").
- The loans pay a fixed rate of interest but the notes pay a floating rate of interest. The issuer and BBVA entered into an interest rate swap agreement to hedge against any interest rate mismatch.
- The servicers hold up to seven days of collections before transferring them to BBVA Consumo 4's treasury account, which increases the commingling risk if the originators become insolvent. Under the transaction documents, if the short-term rating on BBVA falls below 'BBB' with a short-term rating of 'A-2', or otherwise

'BBB+', the servicer needs to make sweeps to the issuer's treasury account every day to reduce the commingling risk exposure. There is also an option of setting up a contingent commingling reserve if we lower the short-term rating on BBVA, as servicer, below 'BBB' with a short-term rating of 'A-2', or otherwise 'BBB+' (see "Cash collection arrangements and transaction accounts").

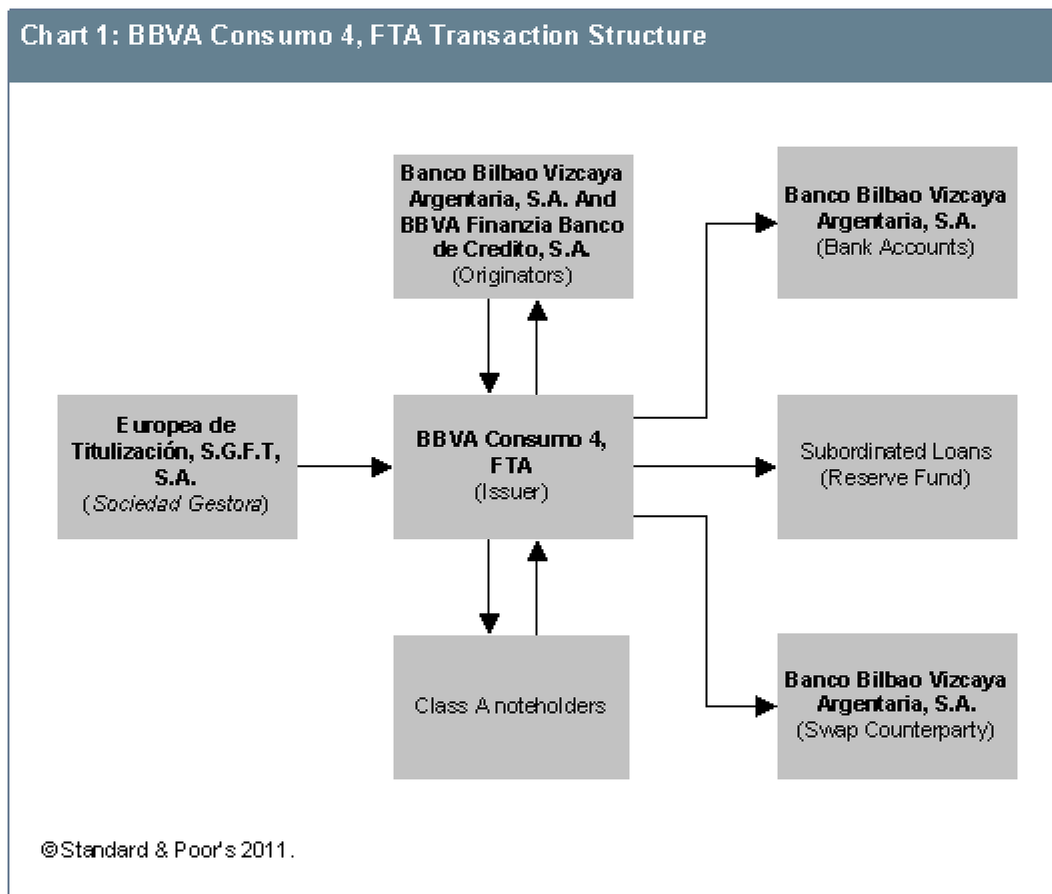
Transaction Structure

The issuer, BBVA Consumo 4, is a "fondo de titulización de activos" created only for the purposes of purchasing the consumer loans from the originators, issuing the notes, and carrying out related activities. The assets are insulated from the insolvency of the originators and the trustee.

The total outstanding amount of the loans purchased was €1.1 billion.

To fund the purchase of collateral, BBVA Consumo 4 issued two classes of collateralized floating-rate quarterly-paying notes (see chart 1). We only rated class A.

Chart 1: BBVA Consumo 4, FTA Transaction Structure



The collateral is serviced by BBVA and BBVA Finanzia, which collect the amounts due under the loans. The servicers transfer those payments weekly to the issuer's treasury account. Principal amounts not used for acquiring additional loans during the revolving period were deposited in the principal account. The amounts held in these accounts receive a guaranteed interest rate equal to three-month EURIBOR minus 10 basis points (bps).

The issuer entered into an interest swap agreement with BBVA to counteract the interest rate risk due to the fixed rate payable on the underlying loans and the floating rate payable on the notes (see "Interest swap agreement").

On each quarterly IPD, the issuer pays in arrears the interest due to the noteholders. For these payments, the issuer has as available funds the proceeds of the interest swap, interest earned on the issuer accounts, the reserve fund, and any other amounts belonging to the issuer.

In this structure, all interest and principal received can be mixed to pay principal and interest due under the notes (see "Priority Of Payments").

Banco Bilbao Vizcaya Argentaria S.A. (Originator And Servicer)

The ratings on Spain-based BBVA reflect our view of the bank's strong franchise in its key markets, resilient financial performance, and conservative strategy. In our opinion, BBVA's comparatively good performance and sound credit risk management are counterbalanced by its lower diversification than other 'AA' rated peers and comparatively higher reliance on emerging markets. (see "Summary: Banco Bilbao Vizcaya Argentaria, S.A.", published on July 22, 2010).

BBVA Finanzia is BBVA's unit specializing in point-of-sale financing of motor cars. It operates by arrangements with referrers (importers, manufacturers, and dealers in general).

The commercial network has nationwide coverage, with 36 branches specializing in the automotive sector and consisting of more than 250 commercial agents whose mission is mainly managing and recruiting referrers.

Collateral Description

As of Feb. 28, 2011, the pool comprises unsecured loans granted to Spanish and non-Spanish individuals resident in Spain to finance the acquisition of a vehicle, either new or used, and for consumer purposes. The pool comprises 127,187 loans totaling €1,009,026,184.03. BBVA and BBVA Finanzia originated and service the loans. All loans in the pool are fully amortizing, monthly-installment loans.

Other characteristics of the loans

Other features of the pool include:

- Of the pool, 62.70% is concentrated in Catalonia, Andalucia, Madrid, and Valencia (see chart 2). The highest concentration was in the Catalonia region, representing 23.74% of the pool.
- The pool was originated between 2000 and 2010, with 93.44% of the pool originated since 2007. The weighted-average seasoning is 31.98 months (see chart 3).
- The average loan amount is €7,933: 56.93% of the loans in the pool being have a balance up to €11,999, and 37.53% are in the €12,000 to €23,999 bucket (see chart 4). The loans in the pool have a weighted-average remaining life of 51.51 months (see chart 5).
- All the loans in the pool are fixed-rate.
- BBVA Finanzia originated 61.68% of the pool and BBVA originated 38.32%.
- By purpose, vehicle acquisition represents about 71% of the pool, of which 61% was for new vehicles and 10% for used vehicles.

Chart 2

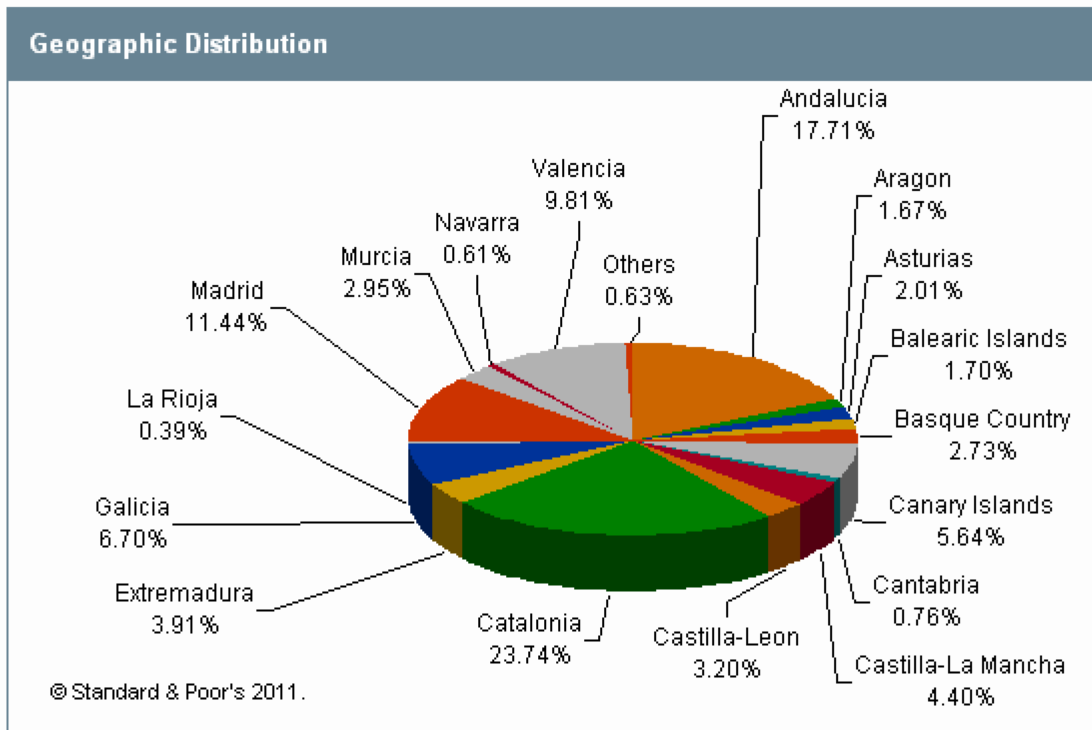


Chart 3

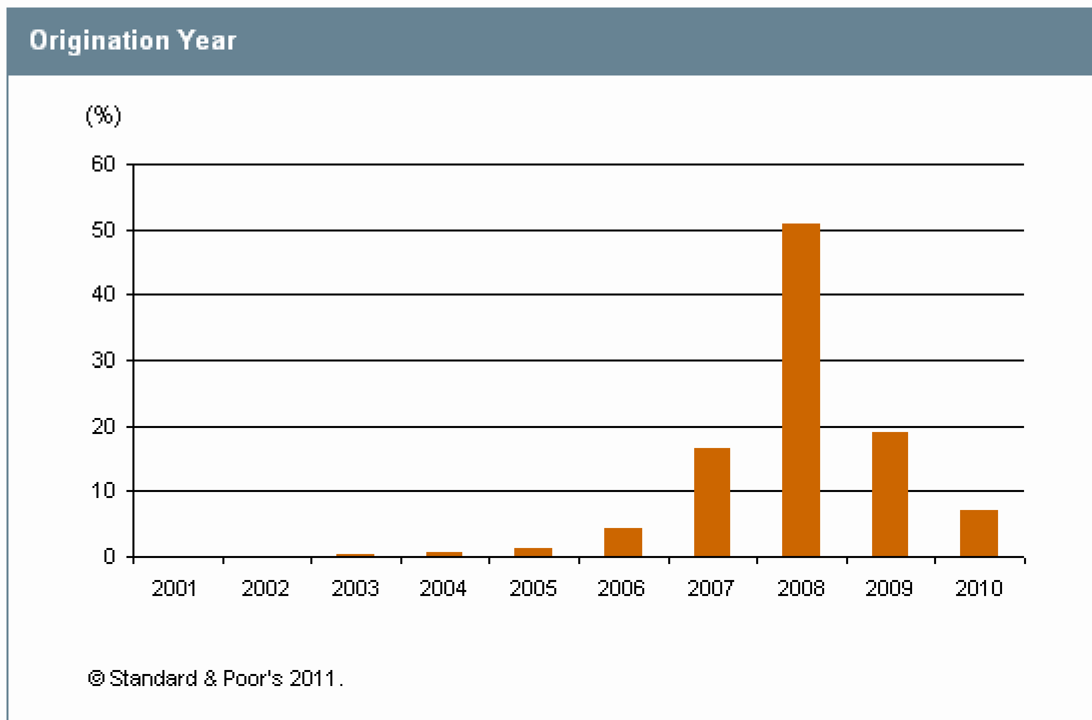


Chart 4

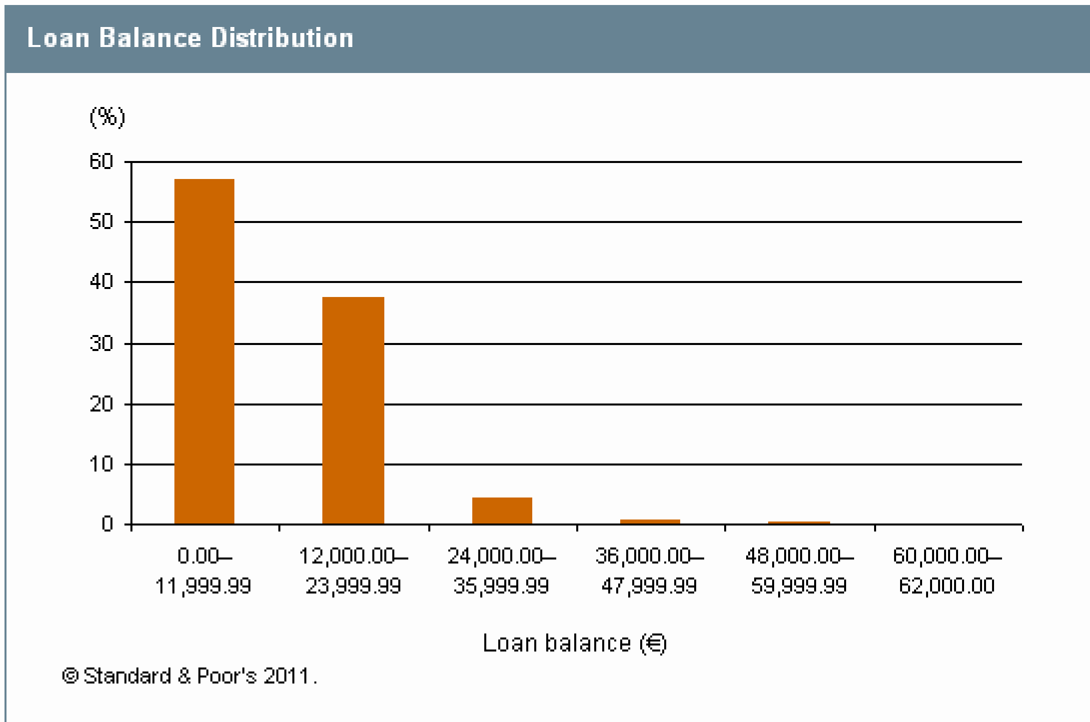
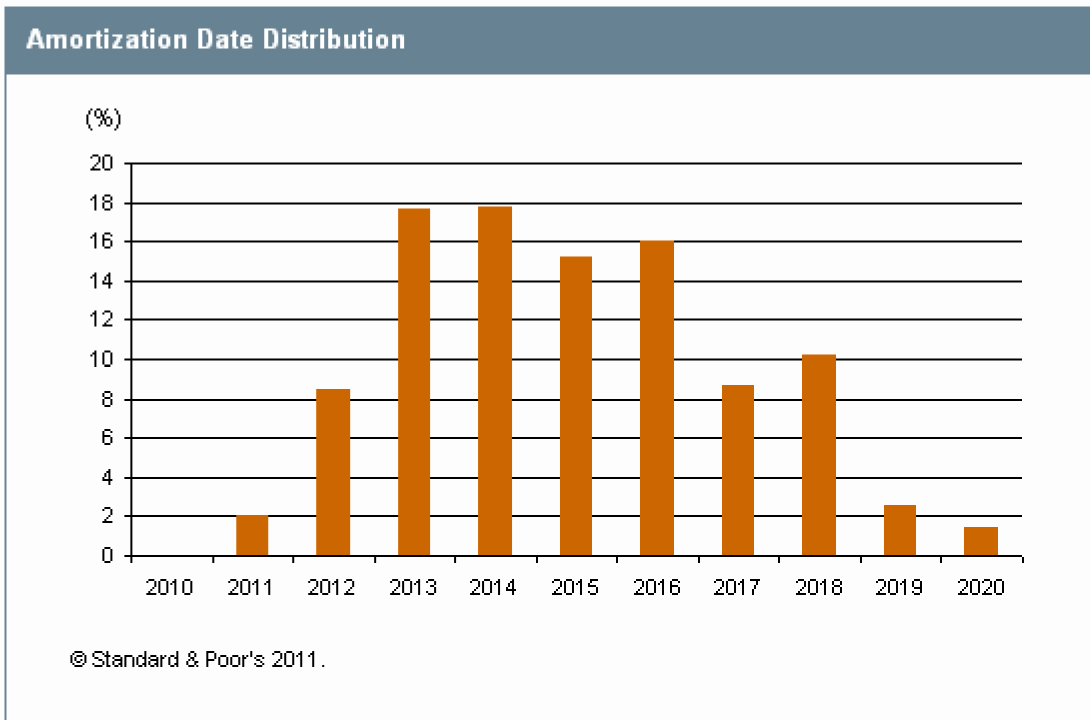


Chart 5



Credit Structure

We have conducted an actuarial analysis on historical data and performance data provided by the originators and the trustee on previous securitizations to assess the credit risk of the pool. With the data provided, we determined a foreclosure probability and a loss rate for the targeted rating level. The product of these two variables gives an estimate of the required loss protection during the life of the collateral in the absence of additional mitigating factors. The higher the targeted rating, the higher the required enhancement level.

Subordination of class B notes, the reserve fund, and excess spread provide the credit support (see table 1).

Table 1

Credit Support For The Notes

Class	Rating	Size of class (%)	Mil. € (equivalent)	Credit support from reserve (%)	Total credit support (%)
A notes	AA- (sf)	83.82	840.68	23.03	39.21
B notes	NR	16.18	162.3	23.03	23.03

Cash collection arrangements and transaction accounts

BBVA and BBVA Finanzia, as servicers, collect the amounts due under the loans and transfer them on the seventh day after they have been received in the treasury account, which is held on the issuer's behalf with BBVA. The pace of the transfers may be sped up if the creditworthiness of the administrators decreases, and could be swept every day to the treasury account. Upon a downgrade of BBVA below 'BBB' with a short-term rating of 'A-2', or otherwise 'BBB+', the servicers transfer the amounts paid in the collection accounts every day to the treasury account. The return of the treasury account is the same as the reference rate of the notes (three-month EURIBOR) minus 10 bps.

The treasury account is held at BBVA. We have classified the support that it provides to the transaction as "direct substantial support," within the framework of our 2010 counterparty criteria. The underlying documentation includes downgrade language in line with our 2010 criteria (see "Counterparty And Supporting Obligations Methodology And Assumptions," published Dec. 6, 2010).

Under the transaction documents, if class A is still outstanding and we downgrade the treasury account provider below 'A+', it becomes an ineligible counterparty and it has 60 calendar days, extendable by 30 additional days if it has written plans to execute a valid remedy, to:

- Find a replacement with a short-term rating of at least 'A+'; or
- Find an adequate guarantor with a short-term rating of at least 'A+'.

The downgraded counterparty would bear all the costs of the remedies

Reserve fund

The structure benefits from a cash reserve fund, which was fully funded at closing by a subordinated loan. The reserve fund is fixed for the two years after closing. BBVA Consumo 4 uses the fund on each payment date to pay the different items in the priority of payments described below.

The reserve fund required on each IPD is the minimum of:

- 21.0% of the initial balance of the notes; or
- The higher of: (i) 42.0% of the outstanding principal balance of the class A notes; and (ii) 50.0% of the initial

reserve fund.

After the second anniversary of the closing date and on each subsequent IPD, the cash reserve account amortizes if:

- The outstanding balance of the loans in the pool with any payment in arrears for more than 90 days is lower than 1.0% of the outstanding balance of the non-doubtful loans in the pool; or
- The reserve fund is at or above its required level.

Revolving period and early amortization

The revolving period began on the first payment date and ends on Sept. 23, 2011, inclusive. During this time, BBVA Consumo 4 uses all principal proceeds to purchase new assets for the pool. The transaction documents specify that the revolving period may terminate early if:

- Cumulative delinquencies (loans in arrears for more than 90 days) are greater than 2.2% of the outstanding balance of the assets;
- The cumulative defaults (loans that are 18 months past due) exceed a target based on the original closing balance and derived from multiplying 0.375% by the number of payment dates that have elapsed since closing;
- Any interest on the notes is unpaid;
- During two consecutive payment dates, the outstanding balance of the collateral (not more than 18 months past due) is lower than 90% of the outstanding balance of the notes;
- The reserve fund is not at its required amount;
- On the preceding IPD, the outstanding balance of the collateral (not more than 18 months past due) is lower than 80% of the outstanding balance of the notes;
- There is a termination under the swap and no replacement, guarantor or an alternative solution can be found within 15 business days;
- A change in Spanish tax legislation makes the additional sale of collateral excessively costly for the servicers;
- BBVA and BBVA Finanzia's annual accounts, closed on Dec. 31 of the previous year, present a condition relative to the solvency of the originator or to the securitized loans;
- BBVA or BBVA Finanzia becomes insolvent; or
- BBVA or BBVA Finanzia is substituted as servicer.

As of the last calculation date, 90+ day arrears comprised 2.66% of the outstanding collateral balance. Therefore, the revolving period has terminated and the issuer uses all the principal collections to redeem the notes. As of the March 23 payment date, the class A notes have amortized to €840.68 million from an initial amount of €937.70 million.

Eligibility criteria

During the revolving period, the issuer was able to purchase additional underlying loans. These underlying loans were subject to individual and pool eligibility criteria tests. For individual loans, the main eligibility criteria were as follows:

- The borrower must be an individual and a Spanish resident and must not be an employee of BBVA or BBVA Finanzia.
- At least 12 months has to elapse between the date the fund buys the loan and the final maturity of the loan.
- The loan must be euro-denominated.
- The whole principal of the loans must have been drawn.

- The principal of the loans must be between €500 and €65,000.
- The loan must have a fixed interest rate.
- The loan must be repaid in monthly installments.
- The loan principal repayment system must be a repayment system with periodic installments.
- The maturity of the underlying loan must not be later than April 30, 2021.
- A minimum of one installment must have been paid and there must be no pending arrears (for more than 30 days).
- There must be no interest-only loans and no loans with grace periods.
- The loan must not be in a payment holiday period.
- The loan must not be able to defer interest or principal.

On a portfolio basis, the eligibility criteria were as follows:

- Loans assigned by BBVA must not be less than 30.0% but not more than 45.0% of the pool.
- The weighted-average interest must not be lower than 5%.
- The weighted-average seasoning of the pool must be equal to or greater than six months.
- The weighted-average seasoning of the additional loan must be equal or greater to three months.
- The weighted-average life of the additional pool must be less than 3.5 years (assuming a continual payment rate of 0.00%).
- The weighted-average remaining life of the pool must not exceed six years.
- The maximum concentration in a single Spanish autonomous community must be limited to 25% of the outstanding balance of the pool.
- The top three Spanish autonomous communities combined must be smaller than 60% of the outstanding balance of the pool.
- The concentration by obligor must not exceed 0.008% of the collateral balance and the 10 largest borrowers in the pool must not compose more than 0.06% of the pool.
- Loans for the acquisition of used vehicles must represent no more than 14.5% of the pool.

Flow of funds

All borrowers pay monthly into the collection account held at the administrators. All collected amounts belonging to the issuer are transferred daily with a seven-day delay into a treasury account held at BBVA in the issuer's name. There was also a guaranteed investment period ("Cuenta de Principales") held at BBVA in the issuer's name, which retained the available principal deposit amounts that BBVA Consumo 4 did not use to buy additional consumer loans during the revolving period.

The treasury account was held at BBVA. We classified the support that it provided to the transaction as "direct limited support," within the framework of our 2010 counterparty criteria. The underlying documentation included downgrade language in line with our 2010 criteria (see "Counterparty And Supporting Obligations Methodology And Assumptions," published Dec. 6, 2010).

Commingling reserve

The transaction documents require that if we downgrade BBVA as servicer below a short-term rating of 'BBB' with a short-term rating of 'A-2', or otherwise 'BBB+', then:

- As soon as reasonably practicable, and in any event within 30 calendar days, the servicer, at its own cost, procures an eligible and suitably rated guarantor with at least a short-term rating of 'A' with a short-term rating

of 'A-1', or otherwise 'A+'. The guarantor provides the issuer with a first-demand, unconditional, irrevocable guarantee. This is equal to the commingling reserve amount, which is applied toward paying the issuer any amounts the servicer must pay or remit for the loans, but fails to do so. BBVA deposits this amount, if required to be paid, in an issuer bank account to be opened and maintained in accordance with the bank account agreement and the cash management agreement. Under the transaction documents, the guarantee is subject to our review and our confirmation that the ratings will remain unaffected at the time the downgrade occurs; or
- As soon as reasonably practicable, and in any event within 10 calendar days, BBVA deposits to an issuer bank account opened in the issuer's name the aforementioned commingling reserve amount in an institution with long-term unsecured and unsubordinated debt obligations rated at least as high as 'A' with a short-term rating of 'A-1', or otherwise 'A+'.

Alternatively, the transaction documents require that the servicer requests our written confirmation that the ratings on the notes will not be adversely affected.

On the date this commingling reserve is required, the initial amount should be equal to a sufficient amount of the principal amount then outstanding to avoid affecting the rating on the notes.

Amortization of the notes

The notes start to amortize after the revolving period ends. The revolving period ended on the December 2010 IPD (see "Revolving period and early amortization"). During the revolving period, BBVA Consumo 4 used the amortization amount to purchase additional assets at par. The transaction documents specified that any funds that BBVA Consumo 4 does not use to buy new receivables would remain in the principal account.

Unless redeemed earlier, BBVA Consumo 4 will redeem the notes at their legal final maturity in November 2025, which is after the maturity of the longest-term loan in the pool.

On any payment date, the amount of principal due under the notes (the amortization amount) is calculated as the difference between the outstanding balance of the notes and the outstanding balance of the assets (excluding the loans that are more than 18 months in arrears).

The notes pay sequentially.

Priority of payments—Pre-enforcement interest payments

On each quarterly IPD, the issuer pays in arrears the interest due to the noteholders. To make the payments, the issuer's available funds include the interest swap proceeds, the reserve fund, and, if necessary, principal received under the loans, and any other proceeds received in connection with the loans.

BBVA Consumo 4 can mix all interest and principal it receives to pay principal and interest due under the notes in a particular order, starting with:

- Ordinary and extraordinary expenses of the fund;
- Net payments under the swap agreement (other than swap termination payments due to a default or breach of contract by the swap counterparty);
- Interest on the class A notes;
- Interest on the class B notes (if not deferred);
- Amortization amount of the notes (after the revolving period);
- Interest on the class B notes if deferred;

- Reserve fund replenishment;
- Swap termination payments due to a default or breach of contract by the swap counterparty;
- Interest on the subordinated loan;
- Principal on the subordinated loan;
- Interest on the loan for initial expenses;
- Principal on the loan for initial expenses; and
- Financial intermediation margin.

The amortization amount is the positive difference, if any, between: The outstanding balance of the notes, and (i) the sum of outstanding balance of the non-doubtful loans and (ii) the principal account balance. During the revolving period, the issuer will use the amortization amount to purchase new assets.

Interest-deferral triggers

Triggers based on the amount of doubtful loans (defined as loans in arrears over 18 months) defer interest on the class B notes to speed payment of principal on the class A notes.

The trigger is as follows: Interest for class B is deferred if the cumulative gross balance of doubtful loans as a percentage over the initial balance of the pool exceeds 21%.

Hedging Risk

Interest swap agreement

Due to the fixed rate payable on the underlying loans and the floating rate payable on the notes, BBVA provides an interest rate swap to mitigate any interest rate mismatch risk.

Under the terms of the swap, the issuer pays all interest accrued and paid on the portfolio, divided by the notional to the swap counterparty, and receives the three-month EURIBOR rate, plus the weighted-average spread of the notes, plus 1.75% on the notional amount, plus servicer fees in case of substitution. The notional amount is equal to the balance of the performing loans and loans in arrears up to 90 days. During the revolving period, the notional increases by the multiplication of (i) the daily average of the balance credited in the principal account during the calculation period; (ii) the margin of the bonds plus 10 bps; and (iii) 1 divided by the interest of the counterparty for the calculation period.

The transaction documents reflect our updated counterparty criteria and provide that if we downgrade the swap provider below 'BBB+', the swap counterparty must, within 10 business days at its own cost, post cash or securities as collateral in accordance with our 2010 criteria. The collateral post can be avoided if the swap counterparty puts in place one of the following remedies:

- Find a replacement with a long-term rating of at least 'BBB+'; or
- Find an adequate guarantor with a short-term rating of at least 'A-1'.

If we further downgrade the counterparty to below 'BBB', then within 60 calendar days it will have to find:

- A replacement rated at least 'BBB+'; or
- A guarantor rated at least 'BBB+'.

If an ineligible counterparty is not replaced within the remedy period, we may lower our rating on the notes to a level that could be supported by the counterparty's then-current rating. Our analysis assumes that a replacement of the ineligible counterparty would occur. Therefore, the market should understand and consider the risk of downgrade of the transaction, if a replacement is not found.

The downgraded counterparty bears all the costs of the remedies.

Credit Analysis

We have conducted an actuarial analysis on historical data provided by the originator to assess the pool's credit risk, following the methodology explained in "European Consumer Finance Criteria," published on March 10, 2000.

In determining the default rate for this transaction, we used the originators' vintage curves up to December 2009, static data on existing consumer securitizations, and dynamic data on both originating entities' consumer books until December 2010. We do not have vintages updated until December 2010 for this transaction. We have therefore taken an approach in our analysis to determine the default rate base case, based on the information provided. Taking into account the limited data provided by the originators, we applied a multiple at the high end of the rating range to the default rate base case at the 'AA' level. This is a more conservative stress than for transactions we rate with the same type of underlying assets. This is a similar approach we took when rating BBVA Consumo 5, when we faced similar issues in relation to the data provided.

With the historical data provided by the originator, we determined a foreclosure probability and a loss rate at each rating level. The product of these two variables gives an estimate of the required loss protection during the life of the collateral in the absence of additional mitigating factors. The higher the targeted rating, the higher the required enhancement level.

Delinquency rate

In the transaction, a loss is recognized when an agreement defaults if it is more than 18 months in arrears. This is more lenient that other consumer securitizations that we rate, where loans are classified as defaulted when they are in arrears for 12 months. The calculation of the cumulated default base-case assumption was partly based on the historical quarterly data provided by BBVA (see chart 6).

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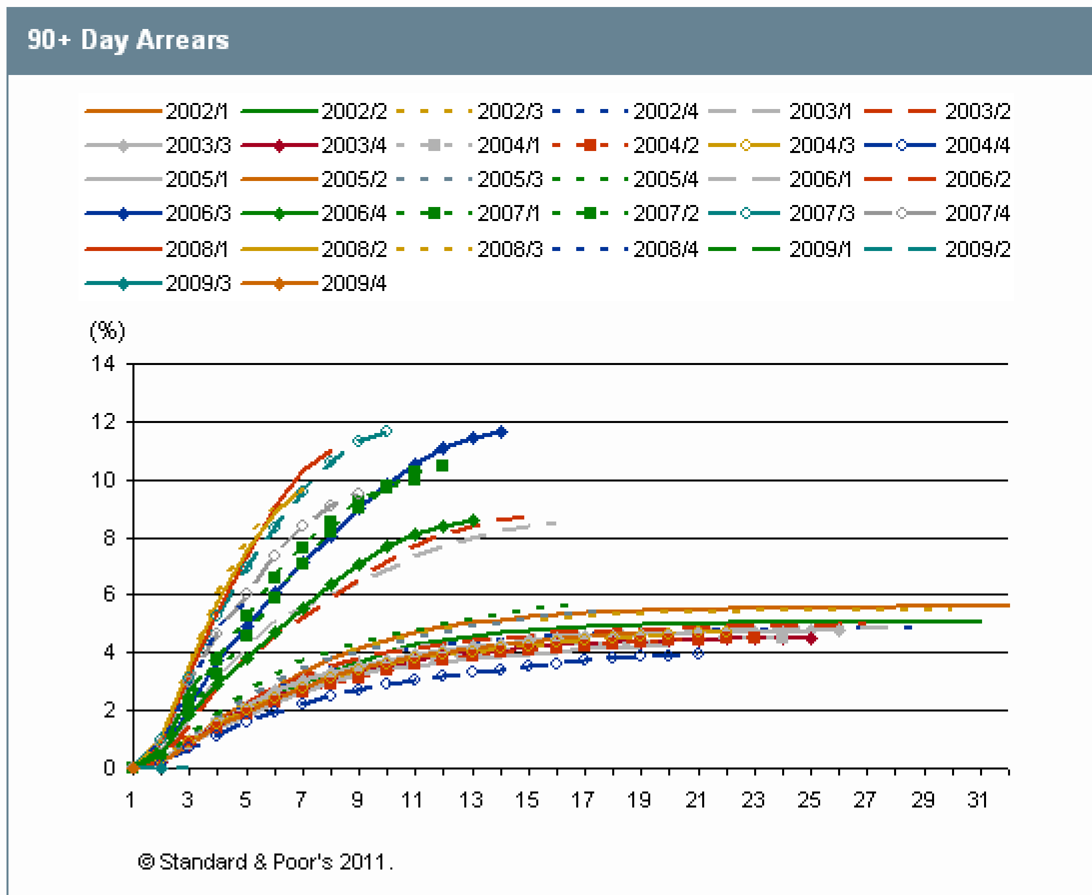
Chart 6



Recoveries

We calculated recoveries using the originators' historical recovery data provided to us of their book and previous securitizations. Chart 7 shows the historical levels of recoveries from the default (described as 90-day arrears) by quarter since origination.

Chart 7

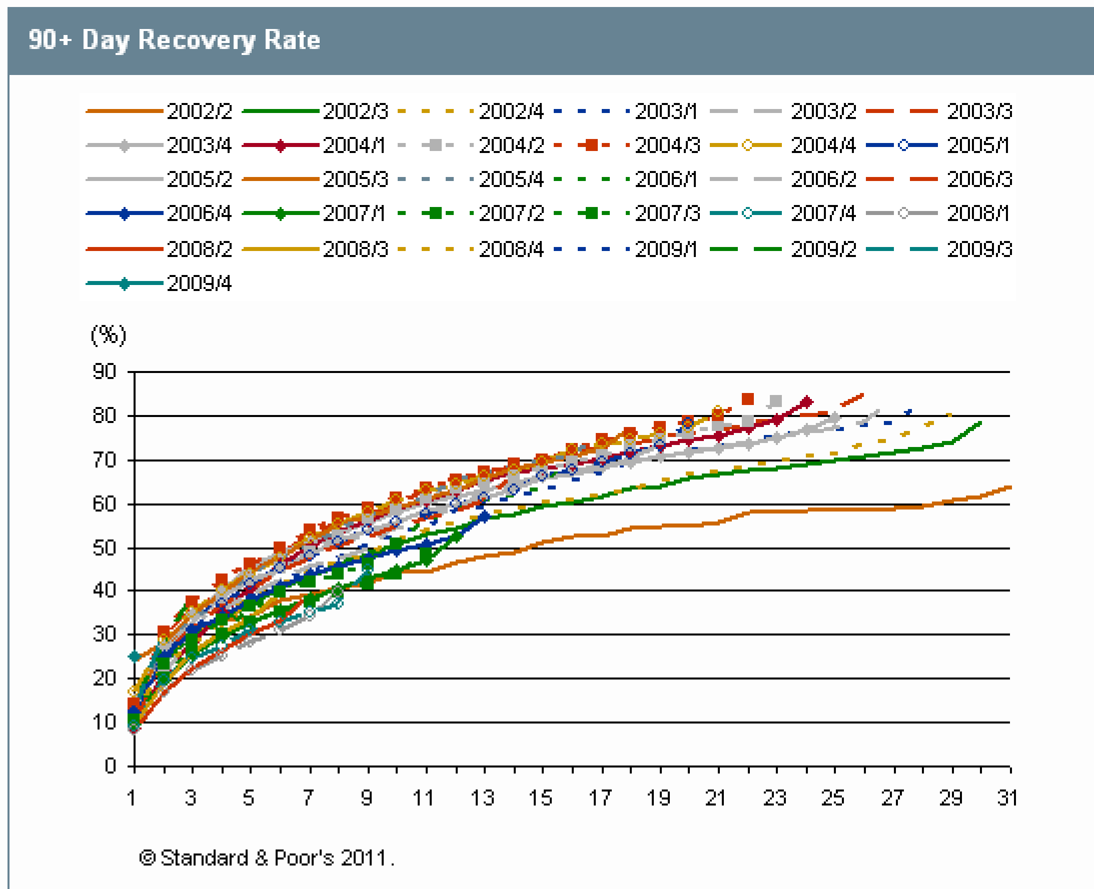


Table 2 shows the stresses on performance parameters.

Table 2

Stresses On Performance Parameters		
Rating level	**Gross default multiple (x)**	**Recovery haircut (%)**
AA	3.0 to 4.0	35.0 to 50.0

Cash Flow Analysis

Timing of defaults

We assume that defaults occur periodically in amounts calculated as a percentage of the default rate. We have stressed two different recession scenarios in this transaction. In the first one, we apply defaults over the first 24 months equally. In the second one, defaults start in month 18 and are applied equally for eight months.

Timing of recoveries

For this transaction, we assume that the issuer would regain full recoveries 30 months after a payment default. The value of recoveries at the 'AA-' rating level is 100% minus the loss severity assumed at that 'AA-' rating level.

Delinquencies

We model the liquidity stress that results from short-term delinquencies, i.e., those loans that cease to pay for a period of time but then recover and become current for both interest and principal. To simulate the effect of delinquencies, we assume a proportion of interest receipts equal to two-thirds of the default rate to be delayed. We apply this in each month of the recession and assume full recovery of delinquent interest occurs 18 months after it is removed from the transaction. Thus, if in month five of the recession the total collateral interest expected to be received is €1 million and the default rate is 30%, €200,000 of interest (two-thirds of the default rate) is delayed until month 23.

Interest rates

We modeled three interest rate scenarios—up, down, and flat—using both high and low prepayment assumptions. Interest rates were 1.5% at the time of modeling and were modeled to rise by 2.0% a month to a high of 12.0% ("up" scenario) and a floor of 0% ("down" scenario) for EURIBOR amounts. We revise our interest rate scenarios if there is sufficient evidence to warrant it.

Prepayment rates

In line with our standard stresses for ABS transactions, we stressed annual prepayment rates up to 24.0% and down to 0.5%.

In combination, the default timings, interest rates, and prepayment rates described above give rise to six different scenarios (see table 3). The ratings we have assigned mean that the notes have all paid timely interest and ultimate principal under each of the scenarios at the proposed rating level.

Table 3

RMBS Stress Scenarios

Scenario	Prepayment rate	Interest rate	Default timing
1	Low	Up	Equal
2	High	Up	Equal
3	Low	Flat	Equal
4	High	Flat	Equal
5	Low	Down	Equal
6	High	Down	Equal

Scenario Analysis

This scenario analysis section incorporates:

- A description of our methodology and scenario stresses;
- Results of the effects of the stresses on ratings; and
- Results of the effects of the stresses on our cash flow analysis.

Methodology

When rating European ABS transactions, we have developed a scenario analysis and sensitivity-testing model framework. This demonstrates the likely effect of scenario stresses on the ratings in a transaction over a one-year outlook horizon. For this asset class, we consider scenario stresses over a one-year horizon to be appropriate given the relatively short weighted-average life of the assets backing the notes. For these types of securities, there are many

factors that could cause the downgrade and default of a rated note, including asset performance and structural features. However, for the purposes of this analysis, we focused on the three fundamental drivers of collateral performance, namely:

- Gross default rate;
- Recovery rate; and
- Prepayment rate.

Given current economic conditions, the proposed stress scenarios reflect negative events for each of these variables. Increases in gross default rates could arise from a number of factors, including rises in unemployment and company insolvencies, together with falls in house prices and a reduction in the availability of credit. In addition, these effects would most likely cause collateral recovery rates to fall as the structural imbalance between supply and demand leads to reductions in asset prices. In this environment, we also expect prepayment rates to fall as fewer refinancing options leave obligors unable to prepay finance agreements and demand for replacement vehicles falls.

For this analysis, we have included two stress scenarios to demonstrate the rating transition of a bond (see table 4).

Table 4

Scenario Stresses

Rating variable	Scenario 1 (relative stress to base case)	Scenario 2 (relative stress to base case)
Gross default rate (%)	30.0	50.0
Recovery rate (%)	(30.0)	(50.0)
Constant prepayment rate (%)	(20.0)	(33.3)

It is worth noting that our base case assumptions for each transaction are intended to be best estimates of future performance for the asset portfolio. Our approach in determining these base cases would take account of historically observed performance and an expectation of potential changes in these variables over the life of the transaction. The sensitivity of rated bonds in each transaction will differ depending on these factors, in addition to structural features of the transaction, including its reliance on excess spread, payment waterfalls, and levels of credit enhancement at closing.

For each proposed scenario stress, we separate the applied methodology into three distinct stages. In the first stage, we stress our expected base-case assumptions over a one-year period to replicate deviations away from our expected performance over the stress horizon. We assume that the stresses that we apply occur at closing, and apply gross losses based on our expectation of a cumulative default curve for the portfolio.

In the second stage, we apply our usual rating methodology, including revising our base-case assumptions at the one-year horizon to reflect the assumed deviations as a result of the stressed environment. In the final stage of the analysis, we re-rate the transaction at the one-year horizon, after revising our base-case assumptions and applying our standard credit and cash flow stresses at each rating level. The output of the analysis shows the likely rating transition of the rated notes given the applied stresses and the value and timing of any forecasted principal and interest shortfalls under the most stressful scenario.

Scenario stress and sensitivity analysis

When applying scenario stresses in the manner described above, the results of this modeling are intended to be a simulation of what could happen to the ratings on the notes for the given transaction. For the purposes of our

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analysis for this transaction, we applied the two scenarios described above in our cash flow modeling. The implied base-case stresses and scenario stress results are shown in tables 5 and 6.

Table 5

Scenario Stresses (Class A, 'AA-' Rating Level)

Stress horizon—12 months

Rating variable	Base case	Scenario 1	Scenario 2
Default rate (%)	44.00	45.12	52.06
Loss severity (%)	77.83	83.58	88.27
Constant prepayment rate (%)	6.00	4.80	4.00

Table 6

Scenario Stress Analysis—Rating Transition Results At Closing

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	A	AA- (sf)	AA- (sf)
Scenario 2	A	AA- (sf)	A- (sf)

Where interest or principal shortfalls occur under the most senior notes, the holders of these notes and/or the trustee can call an event of default. This could lead to multiple events, such as the senior fees of the transaction stepping up, the swap terminating (with the issuer needing to make termination payments), and application of the post-enforcement priority of payments. All of these events have an effect on the transaction cash flows.

For the purposes of the analysis above, we make a simplified assumption that the trustee will not call an event of default.

Monitoring And Surveillance

We maintain surveillance on the transaction until the notes mature or are otherwise retired. To do this, we analyze regular servicer reports detailing the performance of the underlying collateral, monitor supporting ratings, and make regular contact with the servicer to ascertain that minimum servicing standards are being sustained and that any material changes in the servicer's operations are communicated and assessed.

The key performance indicators in the surveillance of this transaction are:

- Increases in credit enhancement for the notes;
- Total and 90-day delinquencies;
- Cumulative defaults;
- Cumulative recoveries; and
- Constant prepayment rates.

Related Criteria And Research

- Rating On BBVA Consumo 5 Placed On CreditWatch Negative After Counterparty Criteria Update, Feb. 3, 2011
- EMEA Structured Finance CreditWatch Actions In Connection With Revised Counterparty Criteria, Jan. 18, 2011
- Rating Assigned In BBVA Consumo 5, FTA's Spanish Consumer Loans Transaction, Dec. 21, 2010

- Counterparty And Supporting Obligations Methodology And Assumptions, Dec. 6, 2010
- Summary: Banco Bilbao Vizcaya Argentaria, S.A., July 22, 2010
- Methodology: Credit Stability Criteria, May 3, 2010
- European Legal Criteria For Structured Finance Transactions, Aug. 28, 2008
- A Listing Of S&P's New Actions Aimed At Strengthening The Ratings Process, Feb. 7, 2008
- European Consumer Finance Criteria, March 10, 2000

Related articles are available on RatingsDirect. Criteria, presales, servicer evaluations, and ratings information can also be found on Standard & Poor's Web site at www.standardandpoors.com. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7)495-783-4011.

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