Fitch Assigns BBVA Consumo 8 FT Expected Ratings

Fitch Ratings-Madrid-12 July 2016: Fitch Ratings has assigned BBVA Consumo 8 FT’s asset backed fixed-rate notes expected ratings as follows:

EUR612.5m Class A: ‘A+(EXP)sf’; Outlook Stable
EUR87.5m Class B: ‘CCC(EXP)sf’

This transaction is an 18-month revolving securitisation of unsecured consumer loans in Spain for car acquisition purposes. All the loans are originated and serviced by Banco Bilbao Vizcaya Argentaria, S.A. (BBVA, rated A-/Stable/F2), which is also the SPV account bank provider. Final ratings are contingent on the receipt of final documentation conforming to information already received.

KEY RATING DRIVERS

Blended Default Rate Assumption
Fitch has assumed a blended 5.7% base case lifetime default rate on the collateral, expressed as a percentage of initial collateral euro balance. While the portfolio at closing date will comprise 64% new car loans and 36% used car loans, the blended default rate analysis is calibrated with a slightly larger share of used car loans to 40% as per the covenants established during the revolving period.

Recoveries Based on Comparable Transactions
Fitch’s credit analysis captures a recovery expectation of 25% on defaulted amounts under a base case scenario, which is substantiated with observed recoveries from comparable unsecured securitisations rated by Fitch. The agency has given no credit to recovery vintage data presented by BBVA, considering the inconsistencies found, such as unexplained peaks in very late post-default periods. The lifetime credit loss rate on the collateral is therefore assumed at 4.3% under a base case scenario.

Revolving Period Exposure
The revolving period would be terminated early if the balance of loans in arrears over 90 days is greater than 2.2% of the collateral balance. Fitch views this level much tighter than the historical arrears ratio presented by BBVA on its auto loan book that has ranged between 5% and 8% over the past five years, and therefore believes the transaction is exposed to buybacks of non-performing loans by the originator. This risk has been captured in Fitch’s default rate stresses, as detailed below, and prepayment rates will be carefully monitored since the seller and transaction trustee will not report buybacks separately.

High Performance Stresses
The ‘A+’ lifetime default rate assumption of 25% implies a default rate multiple of 4.4x from the base case, which is high compared with other recent transactions rated by Fitch. This multiple captures several risk factors, such as the revolving period exposure and significant loan book performance volatility observed during periods of stress, particularly in the used car loan segment. The credit loss rate expectation under a ‘A+’ stress scenario is 21%.

Strong Credit Enhancement
The class A and B notes have a credit enhancement of 17% and 4.5%, respectively, provided by overcollateralisation and the reserve fund. In addition, the transaction benefits from significant excess spread as the assets will pay a minimum fixed rate of 7.5% (as per the revolving covenants) compared with the 1% weighted average fixed rate on the liabilities. Available excess spread on each interest payment date may be used to provision for defaults, defined in the transaction as receivables in arrears over 18 months.

https://www.fitchratings.com/site/pressrelease?id=1008749
Counterparty Dependency Caps
BBVA acts as originator, servicer, SPV account bank and paying agent. In accordance with Fitch’s Counterparty Criteria, the rating of the notes is capped at ‘A+sf’ as the rating trigger upon which remedial actions on the account bank would be taken is set at ‘BBB’ and also because no structural mitigants against servicer disruption risk have been put in place. Notwithstanding, at the notes’ rating scenario, we see payment interruption risk as immaterial, given the financial strength of the servicer and that BBVA is a regulated bank under the Spanish Law.

Class B's Market Value Risk
Fitch has capped class B notes rating at 'CCCsf' and has not assigned a recovery expectation. This takes into account the seller’s ability to exercise a clean-up call when the portfolio balance is less than 10% of its initial amount, which in turn would liquidate early the transaction, even if available funds are insufficient to fully amortise class B notes. In such a scenario, the repayment of class B notes is exposed to the price at which the SPV would sell the assets to the seller, among other factors. The class B notes would have reached a high speculative-grade or low investment-grade rating in absence of this risk.

RATING SENSITIVITIES
The following are the model-implied sensitivities from a change in selected input variables:

Current ratings:
- Class A notes: 'A+sf'
- Class B notes: 'CCCsf'

Decrease in recovery rates by 50%:
- Class A notes: 'A+sf'
- Class B notes: 'CCCsf'

Increase in default rates by 15% and decrease in recovery rates by 15%:
- Class A notes: 'A+ sf'
- Class B notes: 'CCCsf'

Increase in default rates by 30% and decrease in recovery rates by 30%:
- Class A notes: 'A- sf'
- Class B notes: 'CCCsf'

DUE DILIGENCE USAGE
No third party due diligence was provided or reviewed in relation to this rating action.

DATA ADEQUACY
Fitch reviewed the results of a third party assessment conducted on the asset portfolio information, which indicated no adverse findings material to the rating analysis.

Overall, Fitch’s assessment of the asset pool information relied upon for the agency’s rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

SOURCES OF INFORMATION
The information below was used in the analysis.
- Loan-by-loan data provided by the arranger as at 21 June 2016.
- Static cumulative arrears data on the originator’s loan book since 2008, segregated by used car loans and new car loans.
- Dynamic arrears data since 2006.
- Recovery data from comparable unsecured consumer credit securitisations rated by Fitch.
- Prepayments and refinancing stock on the originator loan book as of end-2015.

REPRESENTATIONS AND WARRANTIES
A comparison of the transaction’s Representations, Warranties & Enforcement Mechanisms to those
typical for the asset class will be available by accessing the appendix that will accompany the new issue report. In addition refer to the special report "Representations, Warranties, and Enforcement Mechanisms in Global Structured Finance Transactions" dated 31 May 2016 and available on the Fitch website.

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**Applicable Criteria**
Criteria for Rating Caps and Limitations in Global Structured Finance Transactions (pub. 16 Jun 2016) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=882401&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJJeHAIojE0Njg2NjYwNzIsInlcIjpbIlwidGlcIlwiLCJ1c2VyIjpmVlcg0KfP9E)


Global Consumer ABS Rating Criteria (pub. 03 Dec 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=874105&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJJeHAIojE0Njg2NjYwNzIsInlcIjpbIlwidGlcIlwiLCJ1c2VyIjpmVlcg0KfP9E)

Global Structured Finance Rating Criteria (pub. 27 Jun 2016) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=883130&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJJeHAIojE0Njg2NjYwNzIsInlcIjpbIlwidGlcIlwiLCJ1c2VyIjpmVlcg0KfP9E)

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