

Rating Action: Moody's downgrades Spanish SME ABS notes issued by BBVA EMPRESAS 4, FTA

Global Credit Research - 04 Nov 2015

Madrid, November 04, 2015 -- Moody's Investors Service has today downgraded the rating of BBVA EMPRESAS 4, FTA's class A notes to Aa3(sf) from Aa2(sf).

Today's downgrade follows the significant decrease in available credit enhancement for the class A notes resulting from recent structural changes to the transaction executed on October 23, 2015.

Issuer: BBVA Empresas 4, FTA

...EUR1700M A Notes, Downgraded to Aa3 (sf); previously on Jul 3, 2015 Upgraded to Aa2 (sf)

BBVA EMPRESAS 4, FTA is an asset-backed securities (ABS) transaction backed by loans granted small to medium-sized enterprises (SMEs) located in Spain, originated by Banco Bilbao Vizcaya Argentaria, S.A. (Bank Deposits Rating A3/P-2, Counterparty Risk Assessment Baa1(cr)/P-2 (cr)).

RATINGS RATIONALE

Moody's downgrade of the class A notes follows a reduction in their credit enhancement. The available credit enhancement decreased because the amount of the cash reserve fund fell to €85 million from €561.5 million. This decrease means that the amount in the cash reserve fund is now equivalent to 41.5% of the class A notes' current balance, from 274.5% before the change. In addition, the reserve fund could further decrease to €42.5 million (i.e. equal to 20.8% of the current balance of the class A notes), if 90+ day delinquencies were to fall below 1% in any period. The level of 90+ day delinquencies was 1.2% as per the investor's report as of September 2015.

The level of delinquencies in this transaction has stabilized since 2014. Moody's therefore considers that there is a likelihood that the 1% delinquency trigger could be hit in the near term, which could result in a further decrease of the cash reserve fund.

KEY COLLATERAL ASSUMPTIONS

The deal's default probability (DP) and recovery rate have remained unchanged at 15.50% of the securitized pool balance (equivalent to 6.95% of the original pool balance) and 45%, respectively, given the stable performance of the transaction. As per the September 2015 investor's report, BBVA Empresas 4, FTA's 90+ day arrears now stands at 1.2%, while cumulative defaults remain at 5.4%. When comparing trend in arrears of 90-360 days for BBVA Empresas 4, FTA with the average index of Spanish SME deals, the transaction is currently performing better than the index.

- Exposure to Counterparties

Moody's rating analysis also took into consideration the exposure to key transaction counterparties, including the roles of servicer and account bank provided by Banco Bilbao Vizcaya Argentaria, S.A.

Principal Methodology

The principal methodology used in this rating was "Moody's Global Approach to Rating SME Balance Sheet Securitizations" published in October 2015. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Factors that would lead to an upgrade or downgrade of the ratings:

Factors or circumstances that could lead to an upgrade of the ratings include: (1) performance of the underlying collateral that is better than Moody's expected; (2) deleveraging of the capital structure, (3) improvements in the credit quality of the transaction's counterparties; and (4) reduction in sovereign risk.

Factors or circumstances that could lead to a downgrade of the ratings include: (1) performance of the underlying

collateral that is worse than Moody's expected; (2) deterioration in the notes' available credit enhancement; (3) deterioration in the credit quality of the transaction's counterparties; and (4) an increase in sovereign risk.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

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