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Presale Report: RMBS/Prime/Spain

**BBVA RMBS 4, Fondo de Titulización de Activos**  
**€4.9 Billion Residential Mortgage-Backed Floating-Rate Notes**

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Class	Prelim. rating*	Prelim. amount (Mil. €)	Available credit support†	Interest	Legal final maturity
A1	AAA	2,740.0	(3.05% + 1.05%)	Three-month EURIBOR plus a margin	April 25, 2060
A2	AAA	960.0	(3.05% + 1.05%)	Three-month EURIBOR plus a margin	April 25, 2060
A3	AAA	1,050.5	(3.05% + 1.05%)	Three-month EURIBOR plus a margin	April 25, 2060
B	A	41.7	(2.20% + 1.05%)	Three-month EURIBOR plus a margin	April 25, 2060
C	BBB	107.8	(1.05%)	Three-month EURIBOR plus a margin	April 25, 2060

\*The rating on each class of securities is preliminary as of Nov. 12, 2007, and subject to change at any time. Initial credit ratings are expected to be assigned on the closing date subject to a satisfactory review of the transaction documents and legal opinion, and completion of a corporate overview. Standard & Poor's ratings address timely interest and ultimate principal.

†This credit support uses current figures.

Transaction Participants	
Originator and seller	Banco Bilbao Vizcaya Argentaria, S.A.
Arrangers	Banco Bilbao Vizcaya Argentaria, S.A. and Europea de Titulización S.G.F.T., S.A.
Mortgage servicer	Banco Bilbao Vizcaya Argentaria, S.A.
Security trustee	Europea de Titulización S.G.F.T., S.A.
Interest swap counterparty	Banco Bilbao Vizcaya Argentaria, S.A.
Collection account provider	Banco Bilbao Vizcaya Argentaria, S.A.
GIC provider	Banco Bilbao Vizcaya Argentaria, S.A.
Subordinated loan provider	Banco Bilbao Vizcaya Argentaria, S.A.
Pay-in agent	Banco Bilbao Vizcaya Argentaria, S.A.

Supporting Ratings	
Institution/role	Ratings
Banco Bilbao Vizcaya Argentaria, S.A. as subordinated loan provider, interest swap counterparty, collection account provider, and GIC provider	AA-/Positive/A-1+

Transaction Key Features	
Expected closing date	November 2007
Collateral	Portfolio of first-ranking and prime residential mortgages granted to residents in Spain
Principal outstanding (Mil. €)	5,253.1
Country of origination	Spain
Concentration	Andalucia (20.82%), Catalonia (20.37%), and Comunidad Valenciana (14.00%)
Property occupancy (%)	100
Weighted-average LTV ratio (%)	73.88
Average loan size balance (€)	147,963.63
Loan size range (€)	13,987.51 to 1,184,500.38
Weighted-average seasoning (months)	22.19
Weighted-average asset life remaining (years)	28.61
Weighted-average mortgage interest rate (%)	5.06
Weighted-average margin at closing (%)	0.71
Arrears	There will be no loans with arrears of more than 30 days at closing
Redemption profile	100% monthly amortizing
Cash reserve (%)	1.05
Mortgage priority	None of pool with second charge
Maximum LTV ratio (%)	80
Number of jumbo loans (> €400,000) (%)	3.98

## Transaction Summary

Standard & Poor's Ratings Services has assigned preliminary credit ratings to the €4.9 billion residential mortgage-backed floating-rate notes to be issued by BBVA RMBS 4, Fondo de Titulización de Activos (BBVA RMBS 4).

The originator of the loans is Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), one of the largest primary lenders in the Spanish financial arena.

The portfolio to be securitized comprises secured loans with a LTV ratio between 2.3% and 80.0% to individuals resident in Spain, originated between January 2000 and April 2007.

## Notable Features

This will be BBVA's second mortgage-backed securitization in 2007 and the fifth since 1999. The bank is also an experienced participant in ABS, SME, and plain "vanilla" covered bond transactions.

BBVA will be the originator, servicer, paying agent, and interest swap counterparty.

As with other Spanish transactions, interest and principal will be combined into a single priority of payments with triggers in the payment of the interest on the subordinated notes to protect the senior class.

## Sectoral Credit Highlights

Spain's economic growth has consistently exceeded that of the Eurozone over the past six years, and its population of 44 million has been boosted by a net inflow of over three million since the beginning of the century. These dynamic factors have translated into a construction boom in this sector and a sharp acceleration in house-price inflation since the mid-1990s. In the eight years to 2005, Spanish house prices increased 114% in real terms.

Since the end of 2005, however, the Spanish housing market has been sending signals that, although conflicting, could point to the beginning of a slowdown. House price inflation, albeit still vigorous, has been edging down. The latest figures indicate that house prices increased by an annual 11.6% in the second quarter of 2006, compared with 12.5% and 17.0% for the same periods in 2005 and 2004, respectively. Mortgage growth has also started to decline, although it remains at a high level (26% year-on-year in the second quarter of 2006). As interest rates continue to rise through the first quarter of 2007, it is reasonable to expect a marked slowdown in demand and house price inflation in 2007 and beyond.

## Strengths, Concerns, And Mitigating Factors

### Strengths

- The collateral comprises first-ranking mortgage loans secured over residential owner-occupied properties in Spain.
- Strong eligibility criteria at the branch level ensure the credit quality of the collateral.
- BBVA is experienced as a servicer. It currently manages five RMBS, one MBS, 10 CLO, three autos, two consumer, and one leasing securitizations, and has participated in plain-vanilla covered bond transactions. Also, BBVA has long experience in originating residential mortgages, one of its largest sources of income.
- The credit enhancement will be adequate for the target ratings.
- Loans over 12 months in arrears will be written off, allowing for an early excess spread trapping mechanism.

### Concerns

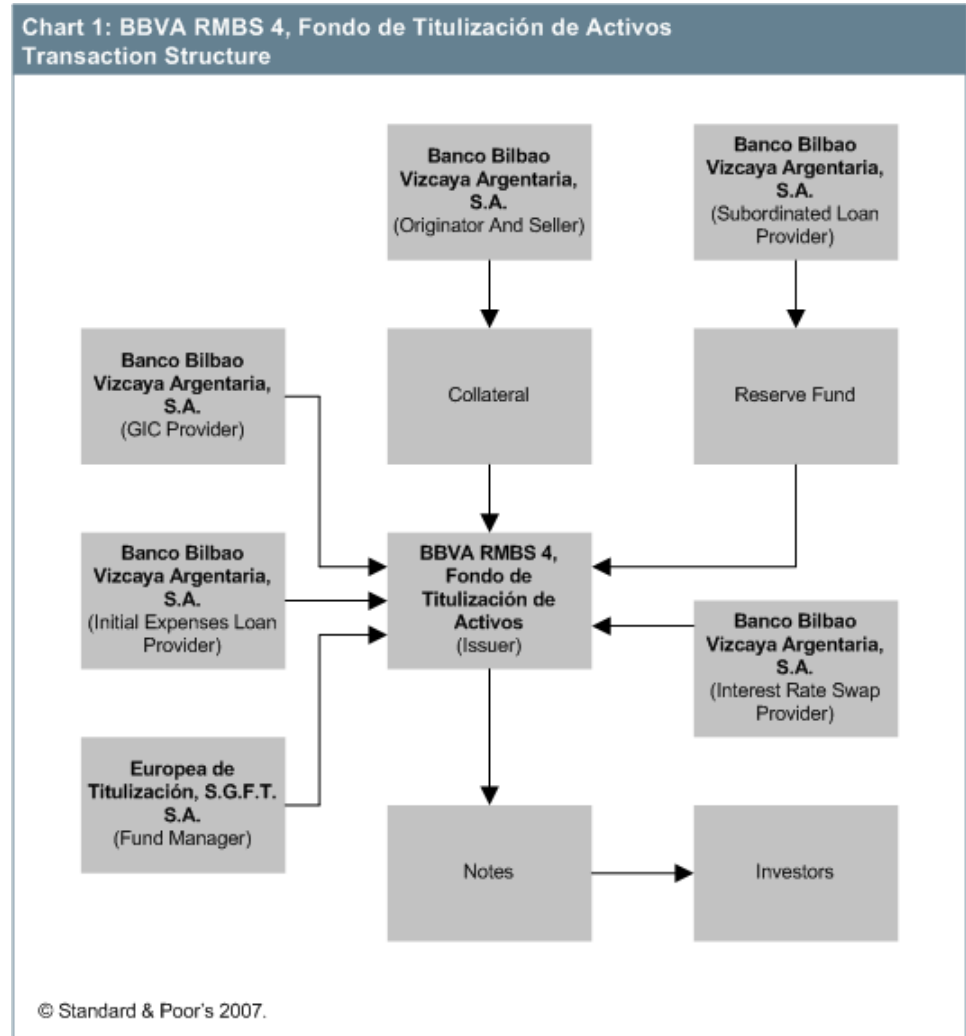
- The excess spread of the pool may decrease from its current margin of 71 bps as some of the loans can be renegotiated if requested by the borrower.
- BBVA will hold up to seven days' of collections, thereby increasing the commingling risk.

### Mitigating factors

- A swap with adequate downgrade language will be put in place to ensure the weighted-average interest rate of the notes (plus 50 bps) and the servicing fees during the life of the transaction.
- Standard & Poor's has incorporated commingling risk in its analysis.

## Transaction Structure

The structure of the transaction is shown chart 1.



*Banco Bilbao Vizcaya Argentaria (originator)*

BBVA is the second-largest Spanish financial institution, created in the middle of the 19th century.

The bank has outstanding business positions in its core markets of Spain and Mexico. As the second-largest financial institution in Spain, the bank has market shares of 15% to 21% in all business segments of Spain's financial services. Its nationwide network of 3,631 branches services 21% of the Spanish bank-using population, and 34% of SMEs. In Mexico, BBVA's second-most important market, 99.7%-owned subsidiary BBVA Bancomer S.A. enjoys a preeminent position, with market shares of 25% to 35% in its banking, insurance, and pension fund businesses. It has approximately 10 million clients, serviced through 1,733 branches.

In January 2007, Standard & Poor's conducted a review of BBVA's origination and underwriting processes, and its collection and default management procedures. This review is an integral part of the corporate overview carried out during the rating process of any transaction.

BBVA's origination processes involve the following key features:

- BBVA originates mortgage loans to individuals through: (i) its extensive network of branches (3,578 in Spain) representing 65% of the origination, (ii) the use of financial intermediaries (APIs), which account for around 20% of origination, and (iii) other channels which account for 15% of the origination.
- For loans originated by the APIs, all the underwriting decisions are made following the same methodology established for loans originated through BBVA branches, and are subject to the same approval process.
- The percentage of approvals made by the branch is 60%. However, this does not mean that the other 40% will not be taken in account; that proportion will be analyzed more rigorously and subject to higher levels of approval.

BBVA uses the following procedures to manage and control the origination and underwriting process:

- There is an internally developed scoring system that takes into account the characteristics of the mortgage loan, the client type of job and activity, and the income level and expenses, among other features;
- The origination process is decentralized;
- BBVA's surveillance process is based on daily and monthly reports; and
- There are regular branch audits.

The recovery and surveillance team comprises seven centers and 245 people.

The recovery process starts on Day 1. The first contact with the client is made by the branch and one claim letter is sent to the borrower on day 30. Between day 40 and 60, a second letter will be sent to the borrower and the guarantors. It is then passed on to an external call center company until day 80, when a third letter is sent. After 90 days, the foreclosure process of the loan starts, and if the loan is not repaid, the execution process will start on day 180. BBVA's level of foreclosure in mortgage loans is 0.26%, and each year from all the originated mortgage loan amounts, 0.34% reach a foreclosure situation where 87.00% of that 0.34% will be recovered by the recoveries team.

### *Issuance*

At closing, the originator will issue mortgage transmission certificates that Europea de Titulización, S.G.F.T., S.A.—the "*sociedad gestora*" (trustee equivalent)—will purchase on the issuer's behalf. Each transmission certificate will represent, in equal amount and rate, the securitized mortgage loan. The transmission certificates will entitle BBVA RMBS 4 to any right and proceeds due under the principal and interest due on the mortgage loans. BBVA RMBS 4 is a "*fondo de titulización de activos*" (SPE equivalent), whose sole purposes are to buy the collateral from BBVA, issue the notes, and carry out related activities. The issuer will hold a distinct and closed pool of assets available for distribution to the noteholders. The assets will be insulated from the insolvency of the originator and the *gestora*.

The total outstanding amount of the mortgage loans to be purchased is expected to be €4.9 billion. To fund this purchase, BBVA RMBS 4 will issue three classes of notes, the 'AAA' rated notes being divided into three series of notes (A1, A2, and A3).

The collateral will be serviced by BBVA, which will collect the amounts due under the mortgage loans. The servicer will transfer these collected installments to the GIC seven days later. The amounts held will receive a guaranteed interest rate equal to three-month EURIBOR minus 10 bps.

On BBVA RMBS 4's behalf, the trustee will enter into a swap agreement with BBVA. This swap will provide protection against adverse interest rate resetting and movements.

The issuer will pay the swap counterparty the total interest received from the loans.

The issuer will receive from the swap counterparty an amount equivalent to the weighted-average coupon on the notes, plus 50 bps per year on the outstanding balance of the performing loans (up to three months in arrears), and the servicing fee amount over the life of the transaction.

### *Priority of payments*

All interest and principal received can be mixed to pay principal and interest due under the notes in the following priority of payments:

- Senior fees;
- Termination net swap payments and any swap settlement amount, when the cause is attributable to the issuer.
- Class A note interest (for series A1, A2, and A3);
- Class B note interest, unless it is deferred;
- Class C note interest, unless it is deferred;
- Class A, B, and C note principal;
- Class B note interest, if deferred;
- Class C note interest, if deferred;
- Replenishment of the reserve fund;
- Swap termination payment, if not due to the fund;
- Subordinated loan interest;
- Subordinated loan principal;
- Initial expenses loan interest;
- Initial expenses loan principal; and
- Payment of the financial intermediation margin.

All interest and principal received can be mixed to pay principal and interest due under the notes.

A trigger will be implemented so that in a stressful economic environment the more senior notes will be amortized before interest on the subordinated classes of notes is paid:

- Interest on the class B notes will be deferred if loans in default comprise more than 8.5% of the initial balance of the mortgages.
- Interest on the class C notes will be deferred if loans in default comprise more than 5% of the initial balance of the mortgages.

#### *Redemption of the notes*

Unless redeemed earlier, the notes will be redeemed on April 25, 2060 at the latest, which is more than 30 months after the maturity of the longest-term mortgage loan in the pool.

On any payment date, the amount of principal due under the notes (the amortization amount) will be calculated as the difference between the outstanding balance of the notes and the outstanding balance of the assets (excluding loans that are more than 12 months past due).

Within the class A notes, the series A1, A2, and A3, will redeem sequentially unless:

- The proportion between the outstanding balance of the performing loans, plus the funds due to the amortization of the loans since the last payment date and the outstanding balance of the class A notes is equal to or lower than one.

The subordinated notes will redeem sequentially unless:

- The proportion of subordinated notes to the total outstanding level of the notes has doubled since closing;
- The reserve fund is at its required level;
- The outstanding balance of loans more than 90 days delinquent over the balance of the non-doubtful mortgages is lower than 1.25% for the class B notes and 1.00% for the class C notes; and
- The outstanding balance of the notes is greater than or equal to 10% of the original balance of the transaction.

## Collateral Description

As of Oct. 18, 2007, the provisional pool comprised 35,503 amortizing first-ranking mortgages secured over residential properties in Spain.

#### *Mortgage loan interest rates*

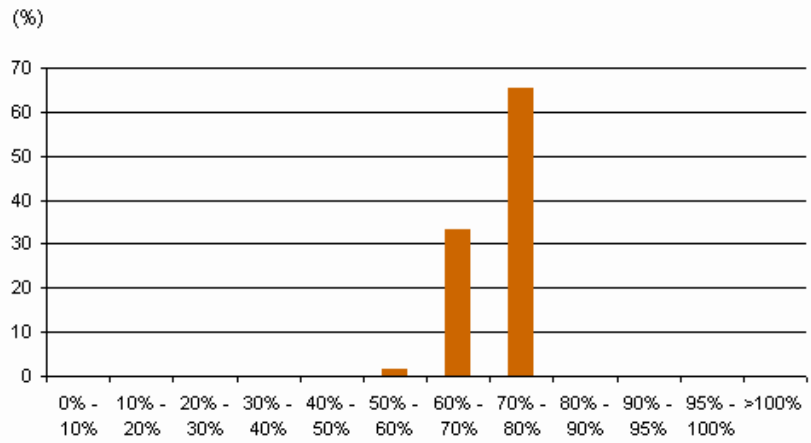
The pool comprises floating-rate mortgage loans that are indexed to one-year EURIBOR, IRPH *conjunto de bancos*, and IRPH *bancos* ("*Indice de Referencia de los Préstamos Hipotecarios*", the average rate of Spanish lending institutions and banks, respectively, calculated by the Bank of Spain). The mortgages have a weighted-average margin over a floating rate (one-year EURIBOR, IRPH *conjunto de bancos*, and IRPH *bancos*) of approximately 71 bps. The weighted-average interest rate is 5.06%.

#### *Main features*

The main features of the collateral pool include the following:

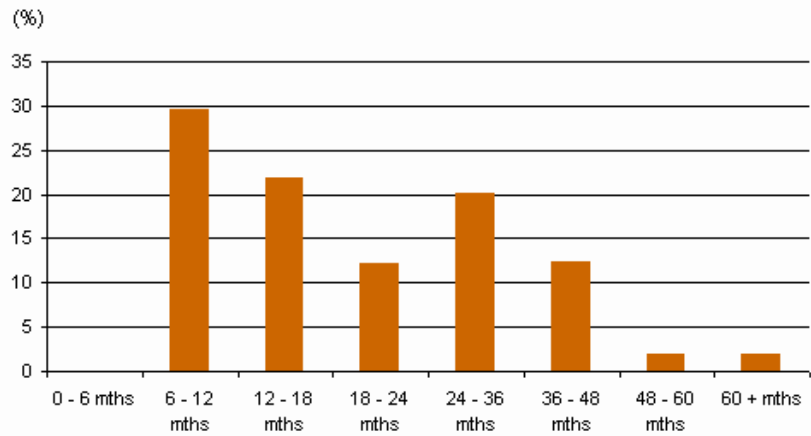
- The weighted-average LTV ratio is 73.88%, the minimum is 2.30%, and the maximum is 80.00% (see chart 2).
- The pool was originated between 2000 and 2007. The weighted-average seasoning is 22.19 months and nearly 42.09% of the pool was originated more than 12 months ago (see chart 3).
- Of the pool, 66.14% is concentrated in Catalonia, Andalucía, Comunidad Valenciana, and Madrid (see chart 4).

Chart 2: LTV Ratio Distribution



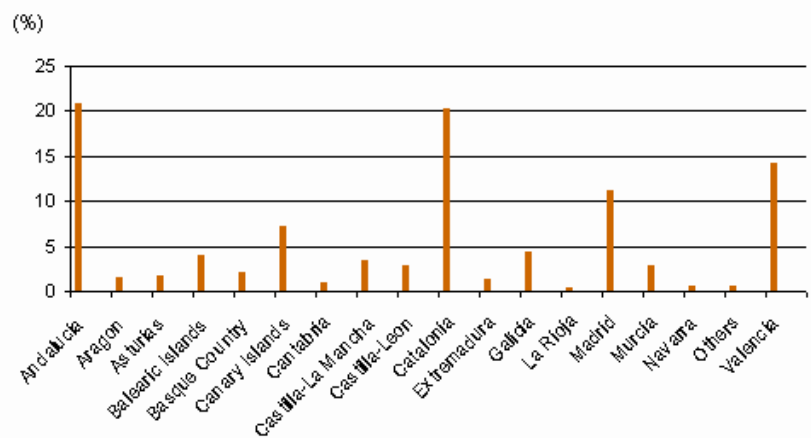
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Chart 3: Seasoning Distribution



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Chart 4: Geographical Distribution



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### *Collateral risk assessment*

Standard & Poor's conducted a loan-level analysis to assess the credit risk of the pool of mortgages. The collateral risk assessment analyzed the foreclosure frequency and loss severity of each loan in the collateral pool. These depend on the borrower's characteristics, the loan, and the rating on the notes. The potential loss associated with a loan can be calculated by multiplying the foreclosure frequency by the loss severity.

To quantify the potential losses associated with the entire pool, Standard & Poor's calculates a WAFF and a WALs at each rating level. The product of WAFF and WALs variables estimates 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.

## Credit Structure

### *Cash collection arrangements*

Borrowers pay monthly into a collection account in the name of BBVA. Seven days later, the funds are then moved to the GIC in the name of BBVA RMBS 4 also held at BBVA. This GIC will guarantee the fund a rate of interest equal to three-month EURIBOR minus 10 bps.

### *Interest swap agreement*

On behalf of BBVA RMBS 4, the trustee will enter into a swap agreement with BBVA. This swap will provide protection against adverse interest rate resetting and movements.

The issuer will pay the swap counterparty the total of interest actually received from the loans.

The issuer will receive from the swap counterparty an amount equivalent to the weighted-average coupon on the notes plus 50 bps per year on the outstanding balance of the performing loans (up to three months in arrears) and the servicing fee amount during the life of the transaction.

The minimum rating required to be the swap counterparty is 'A-1', so if BBVA is downgraded below 'A-1', remedy actions should be taken following the eligible direct support downgrade language described in Standard & Poor's "*Revised Framework For Applying Counterparty And Supporting Party Criteria*" (see "*Criteria Referenced*").

### *Reserve fund*

A reserve fund, provided by the subordinated credit facility provider, will be fully funded at closing, and fixed for the first three years. Thereafter, the required amount will be the lower of the initial reserve fund amount (€1.4 million); or the higher of:

- 2.10% of the outstanding balance of the notes; and
- €4.3 million.

The reserve fund will not decrease if:

- The ratio of (i) the balance of loans more than 90 days in arrears to (ii) the outstanding balance of the non-doubtful mortgages is greater than 1%; or
- The required reserve fund amount was not fully funded on the previous payment date.



## Standard & Poor's Stress Test

Standard & Poor's analysis includes a conservative assessment of the credit risk inherent in the transaction. The credit enhancement levels have been sized after analyzing the impact that severe stress scenarios would have on the mortgage loan collateral. As a result of this analysis, Standard & Poor's estimated the largest amount of potential losses that could occur as a result of these stress scenarios and set the amount of loss protection required on the notes.

Specific penalties were applied regarding the levels of aggregate defaults expected on the pool to reflect the foreclosure frequency attached to specific assets and/or the location of assets, and any terms and conditions that might increase or decrease credit risk. Standard & Poor's analysis fully reflects the specific features of the Spanish market regarding loss severity for foreclosure costs and foreclosure periods.

A cash flow model simulating the portfolio's performance within the transaction's documented structure was run under certain rating scenarios to stress liquidity and the level of excess spread in the transaction. Prepayment level, fees, and expenses paid by the issuer, and delinquencies were the most important parameters stressed in all the runs.

## Key Performance Indicators

Continual surveillance will be maintained on the transaction until the notes mature or are otherwise retired. To do this, regular servicer reports detailing the performance of the underlying collateral will be analyzed, supporting ratings will be monitored, pool cuts will be assessed, and regular contact will be made with the servicer to ensure that minimum servicing standards are being sustained and that any material changes in the servicer's operations are communicated and assessed.

Some of the key indicators will be:

- Arrears levels, especially the cumulative ratio of loans which are three months past due;
- Use of the reserve fund;
- Supporting parties' credit risk evolution; and
- Increases in credit enhancement for the notes.

## Criteria Referenced

- "*European Legal Criteria for Structured Finance Transactions*" (published on March 23, 2005).
- "*Ratings Affirmations And Their Impact On Investors*" (published on April 20, 2005).
- "*Cash Flow Criteria for European RMBS Transactions*" (published on Nov. 20, 2003).
- "*Methodology Behind European RMBS Indices*" (published on Nov. 8, 2004).

## Related Articles

- "*European RMBS Outlook H2 2007—Strong Issuance And Market Innovation Amidst Pockets Of Weakness*" (published on July 25, 2007).
- "*Transition Study: 2006 Sees Upgrades Dominate For Third Successive Year In European Structured Finance*" (published on Jan. 10, 2007).
- "*European Structured Finance Performance Outlook 2007—Fundamental Risks Increasing, But Forecast For Ratings Remains Benign*" (published on Jan. 10, 2007).
- "*Assessment Of The Basel II Framework: Residential Mortgages*" (published on Sept. 28, 2006).
- "*Sophistication Of Mortgage Credit Pricing To Benefit European RMBS*" (published on Oct. 10, 2005).

All criteria and related articles are available on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at [www.ratingsdirect.com](http://www.ratingsdirect.com). The criteria can also be found on Standard & Poor's Web site at [www.standardandpoors.com](http://www.standardandpoors.com).

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