

Rating Action: Moody's takes multiple actions on four Spanish consumer loans ABS

Global Credit Research - 27 Mar 2013

London, 27 March 2013 -- Moody's Investors Service has today downgraded by two notches the junior tranche of BBVA Consumo 4 and upgraded by one to four notches the ratings of three mezzanine or junior tranches of BBVA Consumo 1 and BBVA Consumo 2. At the same time, Moody's confirmed the ratings of six tranches (rated from Caa2(sf) to A3(sf)) of BBVA Consumo1, BBVA Consumo 2, BBVA Consumo 3 and BBVA Consumo 4. While increased counterparty risk triggered the downgrade of the junior tranche of BBVA Consumo 4, sufficient credit enhancement, which protects against sovereign and counterparty risk, primarily drove the upgrade and rating confirmations.

Today's rating action concludes the review for downgrade initiated by Moody's on 02 July 2012. These four transactions are Spanish asset-backed securities (ABS) transactions backed by consumer loans originated by Banco Bilbao Vizcaya Argentaria, S.A. (BBVA, Baa3/P-3). For a detailed list of the affected ratings, see towards the end of the ratings rationale section.

RATINGS RATIONALE

Today's rating action primarily reflects the availability of sufficient credit enhancement to address sovereign and increased counterparty risk. The introduction of new adjustments to Moody's modelling assumptions to account for the effect of deterioration in sovereign creditworthiness has had no effect on the ratings of six classes of notes in the four transactions. Furthermore, the current level of credit enhancement available under the Class C notes of BBVA Consumo 1 and under the Class B and C notes of BBVA Consumo 2 in the form of reserve funds or subordination is sufficient to support the following upgrades: to Baa3 (sf) from Ba2 (sf) for Class C notes of BBVA Consumo 1; to Baa1 (sf) from Baa2 (sf) for the Class B and to Ba1 (sf) from B2 (sf) for the Class C notes of BBVA Consumo 2.

While sovereign risk is largely mitigated by the high level of credit enhancement (49.5%) as of December 2012, increased counterparty risk drove the downgrade of the Class B notes of BBVA Consumo 4. As this credit enhancement is entirely in the form of a reserve fund held at BBVA (Baa3/P-3), the Class B notes are strongly linked to BBVA's rating. Moody's downgraded the Class B notes to Baa2 (sf) from A3 (sf) to reflect this strong linkage. The quality of the assets backing the notes today allows for a one-notch uplift from BBVA's rating.

-- Additional Factors Better Reflect Increased Sovereign Risk

Moody's has supplemented its analysis to determine the loss distribution of securitised portfolios with two additional factors, the maximum achievable rating in a given country (the local currency country risk ceiling) and the applicable portfolio credit enhancement for this rating. With the introduction of these additional factors, Moody's intends to better reflect increased sovereign risk in its quantitative analysis, in particular for mezzanine and junior tranches.

The Spanish country ceiling is A3, which is the maximum rating that Moody's will assign to a domestic Spanish issuer including structured finance transactions backed by Spanish receivables. The portfolio credit enhancement represents the required credit enhancement under the senior tranche for it to achieve the country ceiling. By lowering the maximum achievable rating, the revised methodology alters the loss distribution curve and implies an increased probability of high loss scenarios.

Under the updated methodology incorporating sovereign risk on ABS transactions, loss distribution volatility increases to capture increased sovereign-related risks. Given the expected loss of a portfolio and the shape of the loss distribution, the combination of the highest achievable rating in a country for structured finance and the applicable credit enhancement for this rating uniquely determines the volatility of the portfolio distribution, which the coefficient of variation (CoV) typically measures for ABS transactions. A higher applicable credit enhancement for a given rating ceiling or a lower rating ceiling with the same applicable credit enhancement both translate into a higher CoV.

-- Moody's Revises Key Collateral Assumptions

Moody's maintained its default and recovery rate assumptions for the four transactions, which it updated on 18 December 2012 (see "Moody's updates key collateral assumptions in Italian and Spanish ABS transactions backed by portfolio of consumer and auto loans" [http://www.moodys.com/research/Moodys-updates-key-collateral-assumptions-in-Italian-and-Spanish-ABS--PR_262879]). According to the updated methodology, Moody's increased the CoV, which is a measure of volatility.

For BBVA Consumo 1, the current default assumption is 6.0% of the current portfolio and the assumption for the fixed recovery rate is 20.0%. Moody's has increased the CoV to 79.5% from 25.0%, which, combined with the revised key collateral assumptions, corresponds to a portfolio credit enhancement of 22.5%.

For BBVA Consumo 2, the current default assumption is 8.5% of the current portfolio and the assumption for the fixed recovery rate is 20.0%. Moody's has increased the CoV to 55.9% from 27.5%, which, combined with the revised key collateral assumptions, corresponds to a portfolio credit enhancement of 22.5%.

For BBVA Consumo 3, the current default assumption is 12.0% of the current portfolio and the assumption for the fixed recovery rate is 20.0%. Moody's has increased the CoV to 45.8% from 30.0%, which, combined with the revised key collateral assumptions, corresponds to a portfolio credit enhancement of 25.5%.

For BBVA Consumo 4, the current default assumption is 13.0% of the current portfolio and the assumption for the fixed recovery rate is 30.0%. Moody's has increased the CoV to 49.9% from 30.0%, which, combined with the revised key collateral assumptions, corresponds to a portfolio credit enhancement of 25.5%.

-- Moody's Has Considered Exposure to Counterparty Risk

The conclusion of Moody's rating review also takes into consideration the increased exposure to commingling due to weakened counterparty creditworthiness.

In all transactions, BBVA acts as servicer and collections account bank, and transfers collections daily to the treasury accounts in the name of the funds at BBVA. The reserve funds also reside at BBVA.

In BBVA Consumo 1 and 2, Société Générale, Sucursal en Espana (SGSE, A2/ P-1) guarantees the cash held in the treasury accounts up to EUR33 million and EUR35 million, respectively. In addition, any cash held at the treasury accounts in excess of the guarantee amount is transferred on an ongoing basis to SGSE's additional treasury accounts (in the name of the funds). For these two transactions, Moody's incorporated into its analysis the potential default of BBVA as servicer and considered medium linkage between the rating of the notes and the rating of BBVA, which could expose the transaction to a limited commingling loss of one month of collections.

In BBVA Consumo 3 and 4, the treasury accounts in the name of the funds are held by BBVA. Collections are transferred by the servicers on a daily basis to the treasury accounts at BBVA, and the treasury account bank has to be replaced upon BBVA's rating falling below Baa3. For these two transactions, Moody's incorporated into its analysis the potential default of BBVA as servicer and treasury account and considered strong linkage between the rating of the notes and the rating of BBVA, which could expose the transaction to a commingling loss on the quarterly collections and a loss on the reserve fund.

Deutsche Bank A.G (London branch) (A2/P-1) acts as swap counterparty in BBVA Consumo 1 and BBVA Consumo 2 while BBVA acts as swap counterparty in BBVA Consumo 3 and BBVA Consumo 4. As part of its analysis, Moody's assessed the exposure to the swap counterparties, which in all transactions does not have a negative effect on the rating levels at this time.

-- Other Developments May Negatively Affect the Notes

In consideration of Moody's new adjustments, any further sovereign downgrade would negatively affect structured finance ratings through the application of the country ceiling or maximum achievable rating, as well as potentially increased portfolio credit enhancement requirements for a given rating.

As the euro area crisis continues, the ratings of structured finance notes remain exposed to the uncertainties of credit conditions in the general economy. The deteriorating creditworthiness of euro area sovereigns as well as the weakening credit profile of the global banking sector could further negatively affect the ratings of the notes.

Moody's describes additional factors that may affect the ratings in its Request for Comment, "Approach to Assessing Linkage to Swap Counterparties in Structured Finance Cash flow Transactions: Request for

Comment", 02 July 2012.

In reviewing these transactions, Moody's used ABSROM to model the cash flows and determine the loss for each tranche. The cash flow model evaluates all default scenarios that are then weighted considering the probabilities of the lognormal distribution assumed for the portfolio default rate. In each default scenario, Moody's calculates the corresponding loss for each class of notes given the incoming cash flows from the assets and the outgoing payments to third parties and noteholders. Therefore, the expected loss for each tranche is the sum product of the probability of occurrence of each default scenario and the loss derived from the cash flow model in each default scenario for each tranche.

As such, Moody's analysis encompasses the assessment of stressed scenarios.

In the context of the rating review, the transactions have been remodelled and some inputs have been adjusted to reflect the new approach described above. In addition, Moody's has corrected the input for some coupons for BBVA Consumo 1, 2 and 3 during the review.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating Consumer Loan ABS Transactions", published in October 2012. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

The revised approach to incorporating country risk changes into structured finance ratings forms part of the relevant asset class methodologies, which Moody's updated and republished or supplemented on 11 March 2013, along with the publication of its Special Comment " Structured Finance Transactions: Assessing the Impact of Sovereign Risk".

Other factors used in these ratings are described in "The Temporary Use of Cash in Structured Finance Transactions: Eligible Investment and Bank Guidelines", published in March 2013.

LIST OF AFFECTED RATINGS

Issuer: BBVA Consumo 1, FTA

....EUR1447.5MA Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

....EUR28.5M B Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

....EUR24M C Notes, Upgraded to Baa3 (sf); previously on Jul 2, 2012 Ba2 (sf) Placed Under Review for Possible Downgrade

Issuer: BBVA Consumo 2, FTA

....EUR1440.7MA Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

....EUR16.5M B Notes, Upgraded to Baa1 (sf); previously on Jul 2, 2012 Baa2 (sf) Placed Under Review for Possible Downgrade

....EUR42.8M C Notes, Upgraded to Ba1 (sf); previously on Jul 2, 2012 B2 (sf) Placed Under Review for Possible Downgrade

Issuer: BBVA Consumo 3 Fondo de Titulizacion de Activos

....EUR916.5MA Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

....EUR58.5M B Notes, Confirmed at Caa2 (sf); previously on Jul 2, 2012 Caa2 (sf) Placed Under Review for Possible Downgrade

Issuer: BBVA Consumo 4, Fondo de Titulización de Activos

...EUR937.7MA Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Remained On Review for Possible Downgrade

...EUR162.3MB Notes, Downgraded to Baa2 (sf); previously on Jul 2, 2012 A3 (sf) Placed Under Review for Possible Downgrade

REGULATORY DISCLOSURES

Moody's did not receive or take into account a third-party assessment on the due diligence performed regarding the underlying assets or financial instruments related to the monitoring of these transactions in the past six months.

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moody's.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Please see www.moody's.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moody's.com for additional regulatory disclosures for each credit rating.

Alix Faure
Asst Vice President - Analyst
Structured Finance Group
Moody's France SAS
96 Boulevard Haussmann
Paris 75008
France
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Carole Gintz
VP - Sr Credit Officer/Manager
Structured Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

© 2013 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY

PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for retail clients to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.