

Rating Action: Moody's upgrades one tranche in one Spanish ABS-SME deal

05 Jun 2018

Madrid, June 05, 2018 -- Moody's Investors Service ("Moody's") has today upgraded the rating of one tranche in one Spanish ABS-SME deal.

Issuer: BBVA Empresas 4, FTA

...EUR1700M Class A Notes, Upgraded to Aa2 (sf); previously on Apr 24, 2018 Upgraded to Aa3 (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. ("BBVA", Bank Deposits Rating A2/P-1, Counterparty Risk Assessment A3(cr)/P-2 (cr)).

RATINGS RATIONALE

Today's upgrade is prompted by the upgrade of BBVA's deposit rating to A2/P-1 from A3/P-2. Please see "Moody's upgrades BBVA's Ratings; outlook stable" (http://www.moody.com/viewresearchdoc.aspx?docid=PR_384397). BBVA acts as the issuer account bank and servicer in BBVA Empresas 4, FTA.

The rating of the notes are constrained by the issuer account bank exposure in accordance with Moody's approach in assessing the risk posed by the linkage to the issuer account bank as part of the consolidated methodology to evaluating counterparty risks in structured finance transactions.

Revision of key collateral assumptions

As part of the review, Moody's reassessed its default probabilities (DP) as well as recovery rate (RR) assumptions based on updated loan by loan data on the underlying pools and delinquency, default and recovery ratio update.

Moody's maintained its DP on current balance and recovery rate assumptions as well as portfolio credit enhancement (PCE) due to observed pool performance in line with expectations on BBVA Empresas 4, FTA.

Exposure to counterparties

Today's rating action took into consideration the notes' exposure to relevant counterparties, such as servicer, account banks or swap providers.

Moody's considered how the liquidity available in the transaction and other mitigants support continuity of notes payments, in case of servicer default, using the CR Assessment as a reference point for servicers.

Moody's also matches banks' exposure in structured finance transactions to the CR Assessment for commingling risk, with a recovery rate assumption of 45%.

Moody's also assessed the default probability of the account bank providers by referencing the bank's deposit rating.

Moody's assessed the exposure to the swap counterparties. Moody's considered the risks of additional losses on the notes if they were to become unhedged following a swap counterparty default by using CR Assessment as reference point for swap counterparties.

Principal Methodology:

The principal methodology used in this rating was "Moody's Global Approach to Rating SME Balance Sheet Securitizations" published in August 2017. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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

Factors or circumstances that could lead to an upgrade of the rating 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 counterparties, and (4) reduction in sovereign risk.

Factors or circumstances that could lead to a downgrade of the rating 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 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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