

**Material Event  
concerning**

**BBVA HIPOTECARIO 3 Fondo de Titulización de Activos**

Pursuant to section III.4.2.d of the Prospectus for **BBVA HIPOTECARIO 3 Fondo de Titulización de Activos** (the “Fund”) notice is given to the COMISIÓN NACIONAL DEL MERCADO DE VALORES of the following material event:

- The Rating Agency **Fitch Ratings** (“Fitch”) advised on November 11, 2010 that it has affirmed the rating of the Bond Series issued by **BBVA HIPOTECARIO 3 Fondo de Titulización de Activos**:
  - **Series A2:** **AAAsf**, stable outlook
  - **Series B:** **Asf**, negative outlook
  - **Series C:** **BBsf**, negative outlook

Enclosed herewith is the press release issued by Fitch.

Madrid, November 12, 2010.

Mario Masiá Vicente  
General Manager



## Fitch Takes Rating Actions on Five BBVA SME CDOs

11 Nov 2010 12:28 PM (EST)

Fitch Ratings-London-11 November 2010: Fitch Ratings has taken various rating actions on five collateralised debt obligations (CDOs) of small-and medium-sized enterprises (SME) originated by Banco Bilbao Vizcaya Argentaria (BBVA; AA-/F1+) between December 2004 and June 2007. A full list of rating actions, which follow Fitch's annual review of the transactions is below:

### BBVA-3 FTPYME, FTA (BBVA 3)

EUR99,015,888 Class A2(G) affirmed at 'AAAsf'; Outlook Stable; no Loss Severity Rating ("LS") assigned

EUR17,657,844 Class B affirmed at 'A+sf'; Outlook Negative; assigned LS-2

EUR8,049,899 Class C affirmed at 'BBsf'; Outlook Negative; assigned LS-3

### BBVA-4 PYME, FTA (BBVA 4)

EUR106,908,547 Class A2 affirmed at 'AAAsf'; Outlook Stable; assigned LS-1

EUR18,409,870 Class B affirmed at 'AAsf'; Outlook Negative; assigned LS-3

EUR26,783,804 Class C downgraded to 'CCCsf' from 'B-sf'; assigned Recovery Rating ("RR") of RR-5

### BBVA-5 FTPYME, FTA (BBVA 5)

EUR243,650,900 Class A1 affirmed at 'Asf'; Outlook Negative; assigned LS-1

EUR67,387,980 Class A2 affirmed at 'Asf'; Outlook Negative; assigned LS-1

EUR43,428,625 Class A3(G) affirmed at 'AA+sf'; Outlook Stable; no LS assigned

EUR39,900,000 Class B affirmed at 'BBsf'; Outlook Negative; assigned LS-3

EUR57,000,000 Class C affirmed at 'AAAsf'; Outlook Stable; no LS assigned

### BBVA-6 FTPYME, FTA (BBVA 6)

EUR311,202,798 Class A1 downgraded to 'BBB-sf' from 'BBBsf'; Outlook changed from Stable to Negative; assigned LS-1

EUR95,232,229 Class A2(G) affirmed at 'AA+sf'; Outlook Stable; no LS assigned

EUR50,300,000 Class B affirmed at 'CCCsf'; assigned RR-5

EUR32,300,000 Class C affirmed at 'CCsf'; assigned RR-6

### BBVA-Hipotecario 3, FTA (BBVA H-3)

EUR312,011,350 Class A2 affirmed at 'AAAsf'; Outlook Stable; assigned LS-1

EUR46,525,860 Class B affirmed at 'Asf'; Outlook Negative; assigned LS-1

EUR15,731,895 Class C affirmed at 'BBsf'; Outlook Negative; assigned LS-2

The downgrades of BBVA 4's class C notes and BBVA 6's Class A1 notes primarily reflect Fitch's concerns about increasing default and delinquency levels, relatively lower credit enhancement for the respective ratings and increasing obligor concentration as the transactions amortise. At the same time, the senior notes in all the transactions, except BBVA 6, have benefited from the increased credit enhancement (CE) due to structural de-leveraging and portfolio characteristics.

The affirmation of BBVA 3 reflects decreasing arrears and de-leveraging of the transaction over the past year. Although the current defaults on principal have increased to EUR7.79m from EUR3.18m 12 months ago, the subordinated line of credit with EUR7.01m provides a significant buffer. Class A2, guaranteed by the Kingdom of Spain, has amortised down to nearly half of its original balance, and Fitch expects the notes to continue deleveraging. Class A2 has built up a high level of CE and can withstand Fitch's obligor concentration and recovery stresses. The class B and C notes have benefited from pro-rata amortisation and reduced to more than half of their original balances and could withstand further defaults. Fitch has a Negative Outlook on class B and C due to its concerns about transaction

performance and potentially increasing obligor concentration as the transaction continues to deleverage.

BBVA 4 has suffered from high impairment levels with the current defaults on principal increasing to EUR14.5m compared to EUR10.18m last year. The delinquency pipeline has a considerable number of impaired loans which could roll into default and further reduce the reserve fund, which currently stands at EUR7.61m. The transaction is backed by 72% mortgage collateral, however, the cumulative realised recoveries on defaulted assets have been below 5%. Further defaults are likely to reduce the credit enhancement on the class C notes which is relatively low at 5%, consequently increasing the notes' risk profile. In light of this, Fitch has downgraded the Class C notes and has a Negative Outlook on Class B. Class A2 and B have been affirmed due to structural deleveraging and strong CE levels. Both classes could withstand further defaults, obligor concentration risk and recovery stresses.

BBVA 5's performance has substantially deteriorated over the past year, posting a significant rise in defaults on principal, amounting to EUR 45.16m compared with EUR 30.88m last November, although longer dated delinquency buckets have reduced due to impairments rolling into default. The transaction has exhausted its reserve fund by provisioning for rising defaults and has built up a principal deficiency ledger (PDL) of EUR5m. Class A1 and A2 have built up strong CE with of the majority of the notes having amortised and could still withstand a number of loans defaulting including the largest borrowers, with conservative recovery assumptions. Fitch's affirmation of the senior notes reflects this. The Negative Outlook is due to concerns about the transaction's performance.

BBVA 5's class B notes have been affirmed at 'BBsf', commensurate with the level of CE and the good obligor coverage that the notes retain. Class A3(G) is guaranteed by the Kingdom of Spain ('AA+/'Stable/'F1+'), while the European Investment Fund (EIF, rated 'AAA/'Stable/'F1+') guarantees the payment of timely interest and ultimate principal on the class C notes. The ratings of the guaranteed tranches in all the transactions are directly credit-linked to that of the respective guarantor when the current available CE is insufficient to support the ratings on a standalone basis. Class C is currently under-collateralised and Fitch expects that the EIF guarantee is likely to be drawn in the near term as the reserve fund has ran out and the PDL balance is building up. Only 50.9% of the underlying portfolio is secured by mortgage collateral.

BBVA 6 has also suffered serious credit deterioration with defaults on principal having nearly doubled over the past year, currently standing at EUR53.5m. Delinquencies have moderately decreased but are still relatively high, raising concerns about further defaults in the near-and-medium term. The reserve fund has already been exhausted while the PDL balance has increased to EUR21.4m. The transaction closed in 2007, which means it has had modest de-leveraging compared with the other BBVA transactions. Consequently, the CE for the senior notes is limited. In view of the transaction dynamics, security coverage (53.13% mortgage collateral) and the worsening performance over the past year, Fitch has concerns about the credit protection on the senior notes and has downgraded the Class A1 notes and assigned a Negative Outlook. Class A2(G) is guaranteed by the Kingdom of Spain and hence the ratings have been affirmed. Classes B and C have been affirmed at 'CCCs' and 'CCs', respectively. Class C is under-collateralised while Class B has very low CE with possibility of further deterioration and erosion of the credit protection, in line with Fitch's expectations. Class B and C were assigned Recovery Ratings of RR-5 and RR-6 respectively.

The performance of BBVA-H 3 has been relatively stable compared with the other BBVA transactions. Defaults on principal increased over the past 12 months to EUR 13.68m from EUR 8.79m and as a result the delinquencies have decreased across all buckets. With a stable delinquency pipeline, defaults are unlikely to increase over the medium term. The rated notes have a significant buffer in the form of a subordinated line of credit (reserve fund) which is currently EUR21.7m. The transaction has benefited from amortisation with significant CE levels for all the senior and mezzanine notes. One of the mitigating factors for the transaction is 100% real estate mortgage collateral with a low LTV of 32%. The

affirmation reflects that the notes could withstand further defaults and concentration risks. The negative outlooks on the class B and C reflect Fitch's view that these classes will be outstanding for a considerable period of time - during which they will be exposed to broader long term risk associated with Spanish economy.

The guaranteed notes are not assigned a LS rating. Notes rated 'CCCs' or below are assigned a Recovery Rating.

Fitch has assigned an Issuer Report Grade (IRG) of 'Two Stars' to all the transactions, except BBVA 3, reflecting the 'basic' investor reporting. Fitch notes that the investor report includes details on delinquencies and cash flow summaries but does not provide portfolio stratifications and asset level information. BBVA 3 has been assigned a IRG of 'One Star' due to inconsistencies in the investor reports.

For further information and transaction research, please refer to [www.fitchratings.com](http://www.fitchratings.com)

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com).

Source of Information: Trustee report provided by Europea de Titulizacion - Sociedad Gestora de Fondos de Titulizacion

Applicable Criteria, 'Global Structured Finance Rating Criteria', dated 13 August 2010, 'Rating Criteria for European Granular Corporate Balance-Sheet Securitizations', dated 23 July 2009, 'Criteria for Structured Finance Loss Severity Ratings', dated 17 February 2009 and 'Criteria for European Structured Credit Issuer Report Grades', dated 16 February 2010 are available at [www.fitchratings.com](http://www.fitchratings.com)

**Applicable Criteria and Related Research:**

[Global Structured Finance Rating Criteria](#)  
[Rating Criteria for European Granular Corporate Balance-Sheet Securitizations \(SME CLOs\) \(Europe CDOs\)](#)  
[Criteria for Structured Finance Loss Severity Ratings](#)  
[Criteria for European Structured Credit Issuer Report Grades \(EMEA CDO\)](#)

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