



Fitch Downgrades 10 BBVA RMBS Tranches; Affirms 3 Ratings Endorsement

Policy

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Fitch Ratings-London-04 August 2014: Fitch Ratings has downgraded 10 and affirmed three tranches of BBVA RMBS, a series of Spanish RMBS comprising loans originated by Banco Bilbao Vizcaya Argentaria, S.A. (BBVA; A-/Stable/F2). The notes have all been removed from Rating Watch Negative (RWN). A full list of rating actions is at the end of this commentary.

KEY RATING DRIVERS

Defaulted and Foreclosed Assets

Fitch placed the notes on RWN on 16 May 2014, pending analysis of the information on distressed loans that was provided by the management company, Europea de Titulizacion S.A., S.G.F.T. (EdT; not rated). Following further analysis of the data received, Fitch found that the volume of distressed loans in the portfolios was understated in the regular reporting for all three transactions.

The structure of the three transactions recognises loans in arrears by 12 months or more as defaulted with provisions made with excess spread. The structures also provision for loans where the underlying assets have been taken into possession and in a number of instances this is before the loans have reached the 12-month arrears stage and recognised as defaulted. While loans declared as defaulted range between 3.5% and 8.9% of the original balance, the extra data recently received suggests that if loans with foreclosed properties were included, the total number of failed borrowers would be 4.9% (BBVA RMBS 1 and 2) and 11.7% (BBVA RMBS 3) of the original balance.

Despite the recent decline in the reported constant default rate in BBVA RMBS 1, the inclusion of loans with foreclosed properties in the provisioned amounts has meant that the volume of un-provisioned loans continued to increase to June 2014, when the first decline of EUR0.7m was reported. Meanwhile credit enhancement for BBVA RMBS 2 and 3 continue to be eroded by an increasing amount of un-provisioned loans. As of 2Q14 the balance of these implicit principal deficiencies ranged between EUR10.7m and EUR202.1m. The trend of these deficiencies is difficult to predict given the uncertainty surrounding the future foreclosure actions of the servicer.

Analysis of the defaulted loans suggests that the underlying borrowers have adverse credit characteristics: broker-originated loans (on average 55.6% of the defaulted balance) and/or loans to borrowers with temporary employment contracts (on average 20.6%) or self-employed (on average 18.8%).

Expectations of Future Defaults

Although the level of arrears in the three transactions remains low compared with most other Spanish RMBS transactions, Fitch does not put much emphasis on the pipeline of late stage arrears as an indicator of future defaults. The tendency of the servicer to start foreclosure proceedings ahead of the 12-month arrears default definition would suggest that the pipeline of future enforcements is understated.

In its analysis of the transactions, Fitch views BBVA RMBS 1 and 2 as having similar performance, despite BBVA RMBS 1 having an average original loan-to-value ratio around 15 percentage points higher than that of BBVA RMBS 2. For this reason the levels of future defaults expected are similar for the two transactions.

The performance of BBVA RMBS 3 suggests that the borrowers in this pool have a much weaker credit profile. Consequently, in its analysis of the portfolio Fitch assumed default levels almost double those derived for BBVA RMBS 1 and 2.

Low Recovery Expectations

Information on sold properties suggests that the market value decline across the series has been steeper than the market average. In its analysis of the transactions, Fitch found that sales on properties sold in 2013 achieved only 27.5% of the original property values. Given the already high loan-to-value nature of the loans in the underlying portfolios, recoveries on these assets are expected to be limited. In combination with the expected defaults, Fitch concludes that the expected losses for these portfolios across all rating scenarios no longer warrant their current ratings, as reflected in the rating actions taken across the three structures.

RATING SENSITIVITIES

The ratings of these transactions remain vulnerable to lower than expected recoveries on defaulted loans. The 65bp of excess spread generated by the structures has been insufficient to offset low levels of recoveries. Higher losses incurred on future sales would lead to a further build-up in principal deficiencies and thus erosion of credit enhancement, which could trigger subsequent downgrades of the ratings.

The rating actions are as follows:

BBVARMBS 1, FTA:

Class A2 (ISIN ES0314147010): downgraded to 'BBsf' from 'BBBsf'; off RWN; Outlook Negative

Class A3 (ISIN ES0314147028): downgraded to 'BBsf' from 'BBBsf'; off RWN; Outlook Negative

Class B (ISIN ES0314147036): downgraded to 'CCCs' from 'BB-sf'; off RWN; Recovery Estimate 75% assigned

Class C (ISIN ES0314147044): downgraded to 'CCsf' from 'CCCs'; off RWN; Recovery Estimate 0%

BBVARMBS 2, FTA:

Class A2 (ISIN ES0314148018): downgraded to 'Bsf' from 'BBsf'; off RWN; Outlook Negative

Class A3 (ISIN ES0314148026): downgraded to 'Bsf' from 'BBsf'; off RWN; Outlook Negative

Class A4 (ISIN ES0314148034): downgraded to 'Bsf' from 'BBsf'; off RWN; Outlook Negative

Class B (ISIN ES0314148042): downgraded to 'CCCs' from 'Bsf'; off RWN; Recovery Estimate 95% assigned

Class C (ISIN ES0314148059): affirmed at 'CCsf'; off RWN; Recovery Estimate 0%

BBVARMBS 3, FTA:

Class A1 (ISIN ES0314149008): downgraded to 'CCCs' from 'Bsf'; off RWN; Recovery Estimate 90% assigned

Class A2 (ISIN ES0314149016): downgraded to 'CCCs' from 'Bsf'; off RWN; Recovery Estimate 90% assigned

Class B (ISIN ES0314149032): affirmed at 'CCsf'; off RWN; Recovery Estimate 0%

Class C (ISIN ES0314149040): affirmed at 'CCsf'; off RWN; Recovery Estimate 0%

Contacts:

Lead Surveillance Analyst

Sanja Paic

Senior Director

+44 20 3530 1282

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Committee Chairperson

Andrew Currie

Managing Director

+44 20 3530 1447

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email: athos.larkou@fitchratings.com.

Additional information is available at www.fitchratings.com.

Sources of information: Investor and servicer reports, loan-by-loan level data on the current portfolio, as well as loan-by-loan level data on foreclosed properties.

Applicable criteria 'Global Structured Finance Rating Criteria', dated 20 May 2014, 'Counterparty Criteria for

Structured Finance and Covered Bonds', dated 14 May 2014, 'Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum', dated 14 May 2014, 'Criteria for Sovereign Risk in Developed Markets for Structured Finance and Covered Bonds', dated 11 April 2014, 'Criteria Addendum: Spain - Residential Mortgage Loss and Cash Flow Assumptions', dated 5 June 2014, 'EMEA Residential Mortgage Loss Criteria', dated 28 May 2014, 'EMEA RMBS Cash Flow Analysis Criteria', dated 28 May 2014 and 'EMEA RMBS Master Rating Criteria', dated 28 May 2014 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Criteria for Sovereign Risk in Developed Markets for Structured Finance and Covered Bonds
Criteria Addendum: Spain - Residential Mortgage Loss and Cash Flow Assumptions
EMEA Residential Mortgage Loss Criteria
EMEA RMBS Cash Flow Analysis Criteria
EMEA RMBS Master Rating Criteria
Global Structured Finance Rating Criteria - Effective from 20 May 2014 to 4 August 2014
Counterparty Criteria for Structured Finance and Covered Bonds
Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum

Additional Disclosure

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