

BBVA RMBS 5 Spanish Rating Raised On One Class; Two Classes Affirmed Following Criteria Revision

February 18, 2021

Overview

- We have reviewed BBVA RMBS 5 following the expansion of the global RMBS criteria's scope to include Spain, among other countries.
- We have raised our rating on the class C notes. At the same time, we have affirmed our ratings on the class A and B notes.
- BBVA RMBS 5 is a Spanish RMBS transaction, which securitizes a portfolio of first-ranking mortgage loans granted to Spanish residents.

MADRID (S&P Global Ratings) Feb. 18, 2021--S&P Global Ratings today raised its credit rating on BBVA RMBS 5's class C notes to 'A- (sf)' from 'BBB (sf)'. At the same time, we have affirmed our 'A- (sf)' ratings on the class A and B notes.

Today's rating actions follow the implementation of our revised criteria and assumptions for assessing pools of Spanish residential loans (see "Related Criteria"). They also reflect our full analysis of the most recent information that we have received and the transaction's current structural features.

Upon expanding our global RMBS criteria to include Spanish transactions, we placed our rating on the class C notes under criteria observation. Following our review of the transaction's performance and the application of our updated criteria for rating Spanish RMBS transactions, the rating is no longer under criteria observation.

Our weighted-average foreclosure frequency (WAFF) assumptions have decreased due to the calculation of the effective loan-to-value (LTV) ratio, which is based on 80% original LTV (OLTV) and 20% current LTV (CLTV). Under our previous criteria, we used only the OLTV. Our WAFF assumptions also declined because of the transaction's decrease in arrears. In addition, our weighted-average loss severity (WALS) assumptions have decreased, due to the lower CLTV and lower market value declines. The reduction in our WALS is partially offset by the increase in our foreclosure cost assumptions.

Table 1

Credit Analysis Results

Rating	WAFF (%)	WALS (%)	Credit coverage (%)
AAA	17.61	33.84	5.96

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Table 1

Credit Analysis Results (cont.)

Rating	WAFF (%)	WALS (%)	Credit coverage (%)
AA	12.18	29.85	3.64
A	9.44	22.25	2.10
BBB	7.26	18.25	1.32
BB	4.95	15.51	0.77
B	3.33	13.07	0.44

WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity.

Loan-level arrears are low at 1.24%. Overall delinquencies remain well below our Spanish RMBS index (see "Related Research").

Cumulative defaults, defined as loans in arrears for a period equal to or greater than 18 months, represent 7.67% of the closing pool balance. The interest deferral trigger for class C is not at risk of being breached because it is defined at 10.3%, and we do not expect that this level will be reached in the near term.

Our analysis also considers the transaction's sensitivity to the potential repercussions of the coronavirus outbreak. Of the pool, 8% of loans are on payment holidays under the Spanish sectorial moratorium schemes, and the proportion of loans with either legal or sectorial payment holidays has remained higher than the market average, which is below 5%. The government approved a new payment holiday scheme available until March 31, 2021, where the payment holidays could last up to three months. In our analysis, we considered the potential impact of this extension and the liquidity risk the payment holidays could present should they become arrears in the future.

Our operational, rating above the sovereign, and legal risk analyses remain unchanged since our last review. Therefore, the ratings assigned are not capped by any of these criteria.

We consider that the transaction's documented replacement mechanisms adequately mitigate its counterparty risk exposure to BBVA, as bank account provider, up to a 'A-' rating under our current counterparty criteria. Therefore, our ratings on the notes are capped at 'A- (sf)' by our counterparty criteria.

The servicer, BBVA, has a standardized, integrated, and centralized servicing platform. It is a servicer for many Spanish RMBS transactions, and its transactions' historical performance has outperformed our Spanish RMBS index.

Credit enhancement available in BBVA RMBS 5 has remained stable since our previous review because the notes amortize pro rata, and the reserve fund amortizes in line with the collateral as its required level is 10% of the outstanding asset balance.

We have raised to 'A- (sf)' from 'BBB (sf)' our rating on the class C notes. At the same time, we have affirmed our 'A- (sf)' rating on class A and B notes. All the notes could withstand stresses at higher ratings under our credit and cash flow analysis. However, the ratings on the notes are capped by our counterparty criteria at 'A- (sf)'.

S&P Global Ratings believes there remains high, albeit moderating, uncertainty about the evolution of the coronavirus pandemic and its economic effects. Vaccine production is ramping up and rollouts are gathering pace around the world. Widespread immunization, which will help pave the way for a return to more normal levels of social and economic activity, looks to be achievable

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by most developed economies by the end of the third quarter. However, some emerging markets may only be able to achieve widespread immunization by year-end or later. We use these assumptions about vaccine timing in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Related Criteria

- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- Spanish Banks Need To Bolster Provisions, Cut Costs, And Preserve Capital In 2021, Jan. 25, 2021
- European RMBS Outlook 2021, Jan. 25, 2021
- Certain Italian, Portuguese, And Spanish RMBS Ratings Placed Under Criteria Observation Due To Criteria Update, Jan. 8, 2021
- Global Criteria For Assessing Pools Of Residential Loans Updated To Include Seven European Jurisdictions, Jan. 8, 2021
- S&P Global Ratings Definitions, Jan. 5, 2021
- Spanish RMBS Index Report Q3 2020, Dec. 11, 2020
- European RMBS Index Report Q3 2020, Dec. 11, 2020
- Spain Outlook Revised To Negative From Stable On Mounting Fiscal and Structural Challenges; Affirmed At 'A/A-1', Sept. 18, 2020
- Banking Industry Country Risk Assessment: Spain, June 18, 2020

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- Residential Mortgage Market Outlooks Updated For 13 European Jurisdictions Following Revised Economic Forecasts, May 1, 2020
- Various Rating Actions Taken In Spanish RMBS Transaction BBVA RMBS 5 FTA, May 17, 2018
- 2017 EMEA RMBS Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016

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