BBVA RMBS 20 FT

RMBS – Spain – New issue report

Ratings

Series	Rating	Notional (EUR m)	Notional (% assets)	CE* (% assets)	Coupon	Final maturity
Series A	AAA_{SF}	2,350.0	94.0%	11.0%	3M Euribor + 0.15%	14 Feb 2065
Series B	$BBB-_{SF}$	150.0	6.0%	5.0%	3M Euribor + 0.25%	14 Feb 2065
Total		**2,500.0**				

*Credit enhancement considers both subordination and a fully funded 5% cash reserve at closing.

Scope's Structured Finance Ratings constitute an opinion about relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on a particular payment date or by its legal maturity. See Scope's website for the SF Rating Definitions.

Scope's analysis is based on the portfolio dated 21 May 2021 and subsequent updates provided by the originator. The ratings rely on information available to Scope up to 15 June 2021.

Transaction details	
Purpose	Funding/liquidity
Issuer	BBVA RMBS 20 FT
Originator/servicer	Banco Bilbao Vizcaya Argentaria SA (BBVA)
Closing date	14 June 2021
Payment frequency	Quarterly (14 Feb., 14 May, 14 Aug., 14 Nov. of each year)

BBVA RMBS 20 FT is a static cash securitisation of a portfolio of first-lien mortgages on Spanish residential properties, most of which are owner-occupied. The loans were granted by BBVA in its ordinary course of business. The portfolio as of 14 June 2021 comprises 18,920 mortgages granted to borrowers that are resident in Spain.

Rating rationale (summary)

The ratings reflect: i) the legal and financial structure of the transaction; ii) the quality of the underlying collateral in the context of the Spanish macroeconomic environment; and iii) the experience and incentives of BBVA as the transaction's originator and servicer.

Credit enhancement of the rated notes stems from their respective subordination levels as well as an amortising 5% cash reserve, fully funded at closing. The Series A and B notes will amortise sequentially and the structure benefits from an interest rate swap with BBVA, which shields the notes from interest rate risk, covers liability costs and provides 1% of excess spread.

The ratings also account for the underlying portfolio's credit quality, considering its expected performance under the current and future macroeconomic conditions in Spain. The amortising mortgages have a good credit performance, reflecting the generally prime status of mortgage borrowers in the portfolio, prudent post-financial crisis origination standards, the generally benign macroeconomic environment in the recent past and the supportive measures introduced by the government and banks to prevent mortgage defaults during the Covid-19 pandemic.

BBVA performs all money handling roles in this transaction, including the roles of servicer, account bank and interest swap provider. The ratings reflect the counterparty risk exposure to the bank as well as the replacement of the bank in various roles at the loss of a BBB rating. Scope maintains a non-public credit assessment on BBVA. Europea de Titulización S.G.F.T. (EdT) manages the transaction.

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Related Methodologies

General Structured Finance Rating Methodology, December 2020

Methodology for Counterparty Risk in Structured Finance, July 2020

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Bloomberg: RESP SCOP

Rating drivers

Positive rating drivers

Credit enhancement. The subordination, cash reserve and excess spread from the interest rate swap provide significant credit enhancement to protect both the senior and junior notes from losses in the underlying portfolio.

Portfolio characteristics. The current loan-to-value (LTV) ratio (69%) and debt-to-income ratio (24%) are lower than the Spanish average. All underlying mortgaged assets are owner-occupied. The young portfolio (three years of seasoning) mainly reflects the prudent post-financial crisis origination standards in Spain, while the remaining term of 25 years reflects the standard 30-year Spanish mortgage contract. The top four regions (Catalonia, Andalusia, Madrid and Valencia), accounting for about 70% of the portfolio, are among Spain's wealthiest and represent the natural footprint of BBVA's mortgage origination business.

Positive portfolio selection. All loans are first-lien mortgages granted to individuals, mostly to purchase their main residence. Loans that were previously restructured or under an active moratorium have been excluded from the securitised portfolio. In addition, none of the mortgages will be in arrears at the constitution date.

Interest rate swap. The transaction benefits from an interest rate swap with BBVA, which partially mitigates the asset-liability interest rate mismatch. BBVA will receive all interest collected on the portfolio in exchange for paying an amount equal to the senior costs, the Series A and B interest costs and a 1% excess spread, based on the non-delinquent balance of the assets. In remote scenarios of significant asset defaults, the funds from BBVA may be insufficient to cover the senior interest.

Simple structure. The transaction is static and the notes will amortise fully sequentially. In addition, the subordination of the Series B interest adds to the Series A notes' protection.

Negative rating drivers

Benign period origination. The portfolio was predominantly originated under post-financial crisis origination criteria, which have not been tested in a period of significant mortgage borrower stress. Our analysis reflects this with a relatively high volatility assumption related to the expected performance that we derived from the originator's vintage data.

Our assumptions considered BBVA's rather conservative positioning in the Spanish mortgage market and more prudent market-wide origination standards after the financial crisis, as indicated by the Bank of Spain.

Liquidity risk. All sources of liquidity in this transaction are exposed to the credit quality of BBVA. This risk is partially mitigated by the high credit quality of the bank and the fact that a limited amount of periodic collections is already sufficient to pay the senior costs and Series A notes' interest.

The positioning of the cash reserve replenishment before the payment of the Series B notes' interest exposes the tranche to the risk of non-timely payment of interest, even in relatively benign default rate scenarios. The excess spread from the swap partially mitigates this risk and we incorporated the impact of this transaction structural element in our analysis.

Counterparty concentration. BBVA performs all counterparty roles in this transaction. A default of the bank without prior replacement is highly likely to result in a default on the transaction. The high credit quality of BBVA partially mitigates the risk.

The rating of the Series B notes is constrained by the credit quality of BBVA, as the entire credit enhancement of the notes, i.e. the cash reserve and the excess spread from the interest rate swap, is exposed to the bank.

Upside rating-change drivers

Stabilisation of Spanish macroeconomic conditions with a return to the pre-pandemic norm.

Downside rating-change drivers

A significant deterioration in **BBVA's credit profile** may adversely impact the ratings.

Spanish macroeconomic uncertainty in relation to the global slowdown. Covid-19 may weigh negatively on collateral pool performance, as higher unemployment may affect the capacity of borrowers to repay.

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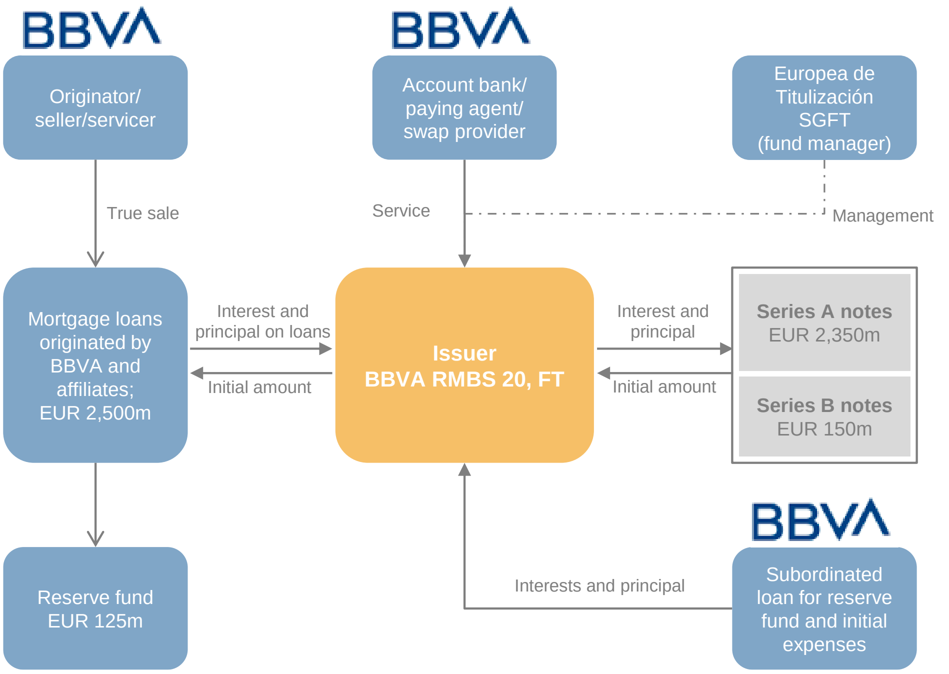
1. Transaction summary

BBVA RMBS 20 FT is a static cash securitisation consisting of prime residential mortgage loans originated and serviced by BBVA and extended to individual borrowers to finance properties in Spain.

The mortgages in the portfolio were extended to borrowers resident in Spain. The current pool's balance as of 14 June 2021 is around EUR 2,500m with a weighted average LTV ratio of 69%.

Figure 1: Simplified transaction diagram



Source: Transaction documents

2. Mortgages in Spain

Post-financial crisis performance of Spanish mortgage loans has improved

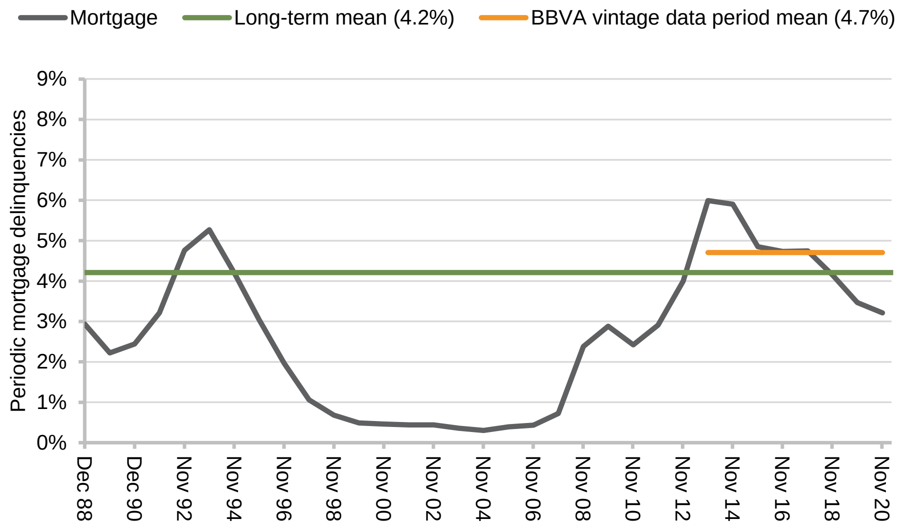
The performance of Spanish mortgage loans improved significantly after the financial crisis in 2008. The stock of over 90 delinquencies in the balance sheet of Spanish banks increased until 2013, which is generally attributable to mortgages originated prior to 2007. The decrease since 2013 (see Figure 2) shows the tightening of mortgage origination criteria after the financial crisis, but also the overall increase in good credit-quality mortgage origination after 2016, i.e. origination volumes grew faster than the delinquency stock.

We expect that prime borrowers, like those included in BBVA RMBS 20's portfolio, will continue to perform well.

Limited Covid-19 impact on Spanish mortgages to date

The impact of Covid-19 on Spanish mortgages has been limited. The Spanish government's measures to preserve household income and banks' reduction of periodic instalments have proved effective in preventing significant mortgage loan arrears to date.

Figure 2: Spanish mortgage delinquencies as provided by the Bank of Spain



Source: Scope Ratings and Bank of Spain

3. Asset analysis

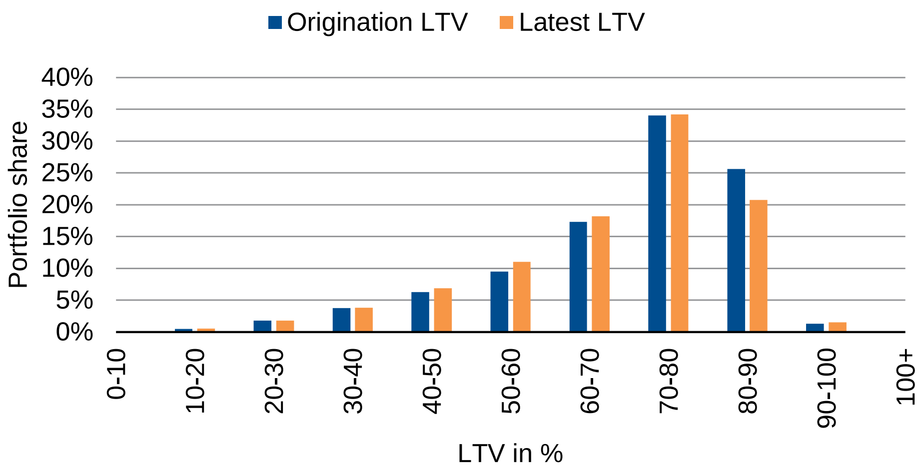
3.1. Initial portfolio

The underlying portfolio of BBVA RMBS 20 FT benefits from positive selection, as all of the assets are performing, not under any kind of moratorium and do not result from a restructuring.

Portfolio of first-lien mortgages granted to individuals to purchase residences

As of 14 June 2021, the securitised pool is composed of standard first-lien mortgages granted to individuals to purchase residences. The portfolio-average LTV of 69%, based on current statistical valuations, is in line with previous BBVA RMBS portfolios. The portfolio-average debt-to-income ratio of 24% is low and below the average for Spanish mortgages, indicating the mainly prime status of the mortgage borrowers in this portfolio.

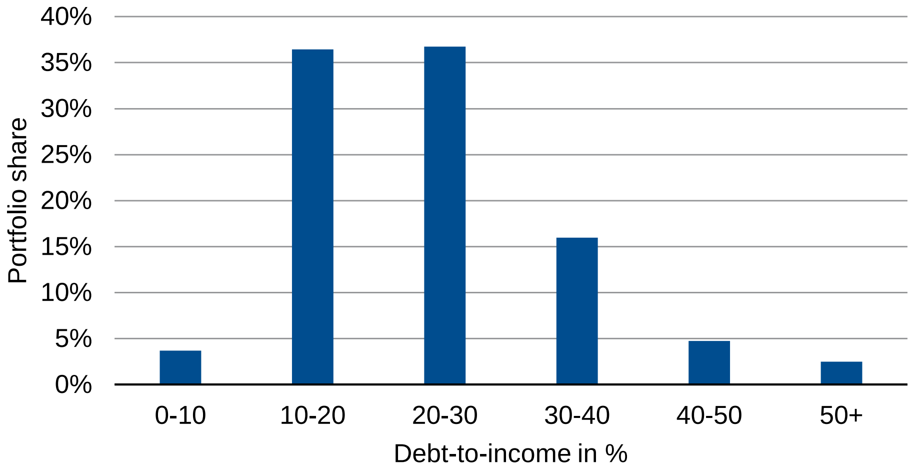
Figure 3: Loan-to-value ratio



Source: BBVA and EdT

Low debt-to-income profile indicates the high credit quality of borrowers

Figure 4: Debt-to-income profile

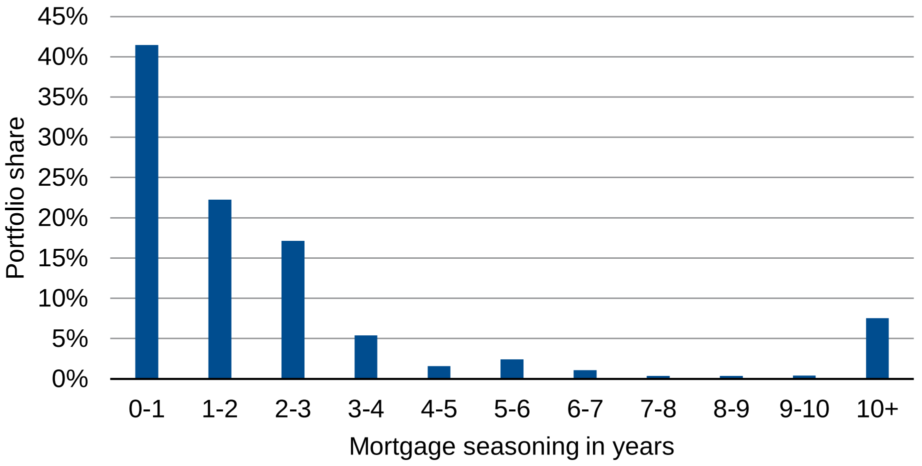


Source: BBVA and EdT

The portfolio reflects more prudent post-financial crisis origination standards, although these have relaxed again across the Spanish market due to high competition. The average origination period of the portfolio is late-2018, with 87% of the portfolio being originated in 2017 or later (see Figure 7). The relatively young portfolio (weighted average seasoning of three years – Figure 5) has a long risk horizon (weighted average remaining term of 25 years – see Figure 8), which reflects the standard 30-year Spanish mortgages in BBVA's product portfolio.

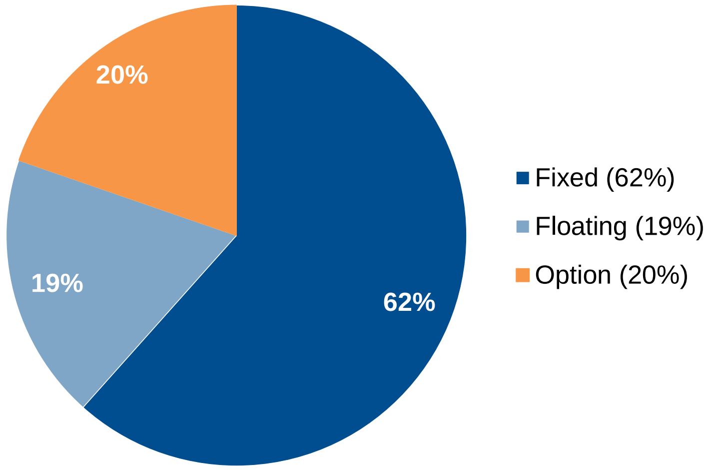
The portfolio is relatively young

Figure 5: Seasoning



Source: BBVA and EdT

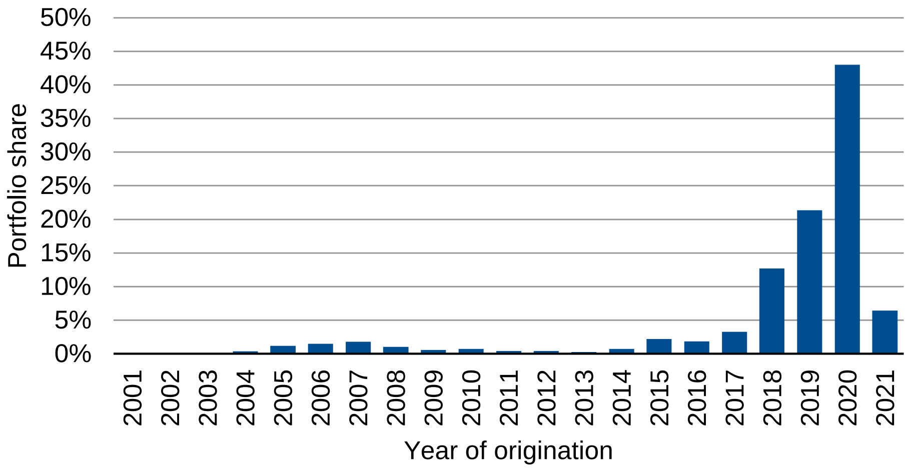
Figure 6: Loan interest type portfolio distribution



Source: BBVA and EdT

The portfolio was mainly originated under post-crisis origination standards

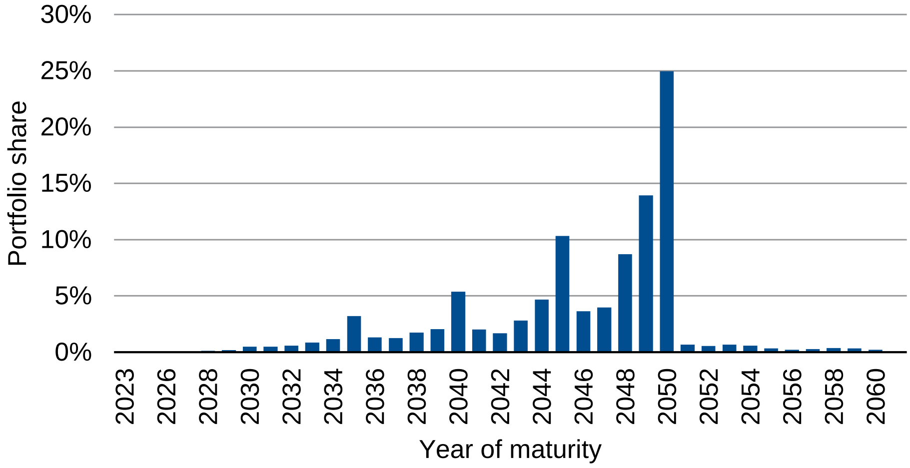
Figure 7: Origination profile



Source: BBVA and EdT

The maturity profile reflects the standard 30-year term of the mortgages

Figure 8: Maturity profile



Source: BBVA and EdT

3.2. Representations on portfolio provided by originator

Portfolio eligibility criteria results in positive mortgage selection

At closing, BBVA will provide the representations and warranties on the securitised portfolio. Some of these are listed below in simplified language:

- None of the mortgage loans will be in arrears for more than 30 days at the constitution date, nor are they under a Covid-19 related moratorium.
- Each loan constitutes a legal, valid, binding and enforceable contractual obligation with full recourse to the relevant borrower.
- Mortgage loans can be freely transferred and are not subject to any encumbrances.
- All mortgage loans have been granted by the seller to individuals for the acquisition of residential properties in Spain and are secured by these properties.
- All mortgage loans pay via direct debit and have at least the last two instalments paid.
- All mortgage loans are denominated in euros, governed by Spanish law, and benefit from a first-lien mortgage.
- All mortgage loans have been completely disbursed and none are restructured receivables.
- No mortgage loans have a current LTV of more than 200%.
- All of the borrowers are individuals resident in Spain.

3.3. Permitted loan variations

3.3.1. Mortgage borrower's contractual flexibility

Permitted loan variations add marginal additional uncertainty

The mortgage loans allow for a certain level of flexibility with respect to changes in the interest rate type, payment holiday options and maturity extension options. The high granularity of the portfolio, contractual limitations on the exercising of options in the mortgage contracts, and the interest rate swap mitigate the risk for the rated instruments.

The maturity extension option is limited to about 9% of the securitised portfolio, subject to a maximum extension of ten years, not beyond February 2061. Mortgages eligible to exercise this option need to be current and compliant with all contractual covenants. Additionally, the current LTV needs to be below 80%.

3.3.2. Servicer renegotiation flexibility

The servicer also has certain options to vary the terms of a portion of the securitised portfolio, which adds limited additional uncertainty with respect to the portfolio amortisation profile. The interest rate swap, contractual limitations, the cash reserve and portfolio granularity partially mitigate this risk.

The servicer may renegotiate the spread/interest rate on the mortgages in the portfolio, as long as the weighted average floating margin of the outstanding portfolio remains above 0.80% and the weighted average fixed-rate mortgage interest rate remains above 1.25%. Moreover, the servicer may allow the maturities to be extended for up to 10% of the initial portfolio balance, subject to a maximum extension to February 2061. The servicer cannot turn an amortising mortgage into a bullet-amortising mortgage.

3.4. Portfolio modelling assumptions

Portfolio modelling assumptions reflect the historic performance of BBVA's mortgages

We derived the expected portfolio default rate distribution based on: i) vintage data provided by BBVA, which covers a period from 2013 to 2020; ii) our analysis of Spanish mortgage delinquencies, based on data published by the Bank of Spain; and iii) our expectations regarding the Spanish macroeconomic environment. We gave credit to the portfolio's seasoning to reflect borrowers' increasing incentives to remain current on a mortgage, so as not to jeopardise their homes.

Our recovery rate calibration was based on the vintage data provided by BBVA, covering a period from Q3 2013 to Q4 2020, repossession data from the bank, as well as the recovery rates reported for previous BBVA RMBS transactions. The recovery timing reflects the term structure of recovery rates, as indicated by the recovery vintage data.

Figure 9: Portfolio modelling inputs

	Portfolio
Mean default rate	3.0%
Coefficient of variation	90.0%
Base case recovery rate	65.0%
AAA rating-conditional recovery rate	39.0%
Constant prepayment rate	10.0%

3.4.1. Default rate analysis of portfolio

Vintage data used to calibrate portfolio default

The vintage data covers a generally benign period in the context of Spanish mortgage loan performance. To reflect a period of stress, we took into account the behaviour of mortgage loans in Spain that BBVA originated between 2004 and 2007, which were exposed to the financial crisis in 2008.

The mean default rate reflects the originator's vintage data (see Figure 16 in Appendix II), accounting for the fact that post-crisis origination criteria is more conservative. However, BBVA's mortgage origination criteria have not been tested in an adverse credit scenario. We have reflected this in our assumptions with a relatively high default rate coefficient of variation. Our default rate assumption uses a 90-days-past-due default definition.

3.4.2. Recovery rate analysis

We were provided with historical performance data on recoveries see Figure 17 in Appendix II, incorporating: i) curing; ii) potential restructuring; and iii) repossession (see Figure 18 in Appendix II). Moreover, we reviewed the recovery performance of previous BBVA RMBS transactions.

Recovery haircuts address the volatility of available recovery performance data

We derived a base case recovery rate of 65%, to which we applied rating-conditional haircuts. We derived our rating-conditional haircuts based on the dispersion of the vintage data, as well as our analysis of BBVA's repossession data.

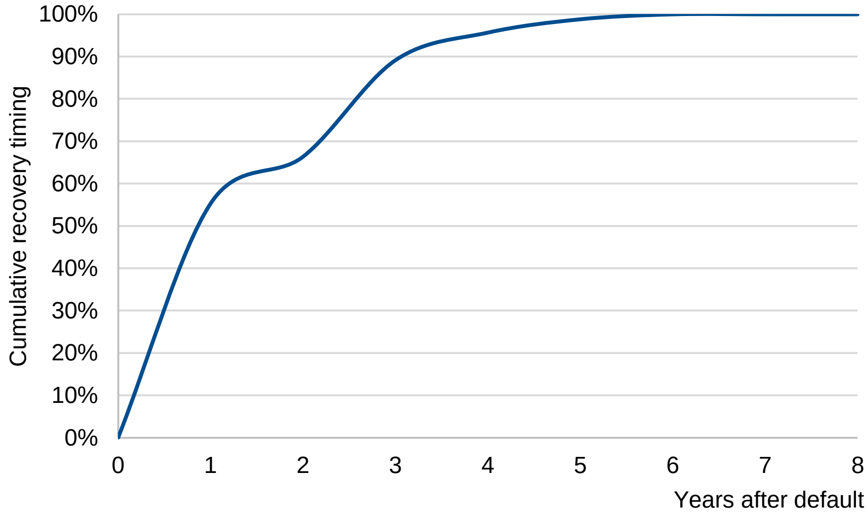
Figure 10: Rating-conditional recovery haircuts

Rating category	B	BB	BBB	A	AA	AAA
Rating-conditional haircut	0%	8%	16%	24%	32%	40%

Recovery assumptions use a 90-days-past-due default definition.

The weighted average recovery timing is 1.9 years. We used the expected recovery timing depicted in Figure 11.

Figure 11: Cumulative recovery timing



Source: BBVA and EdT

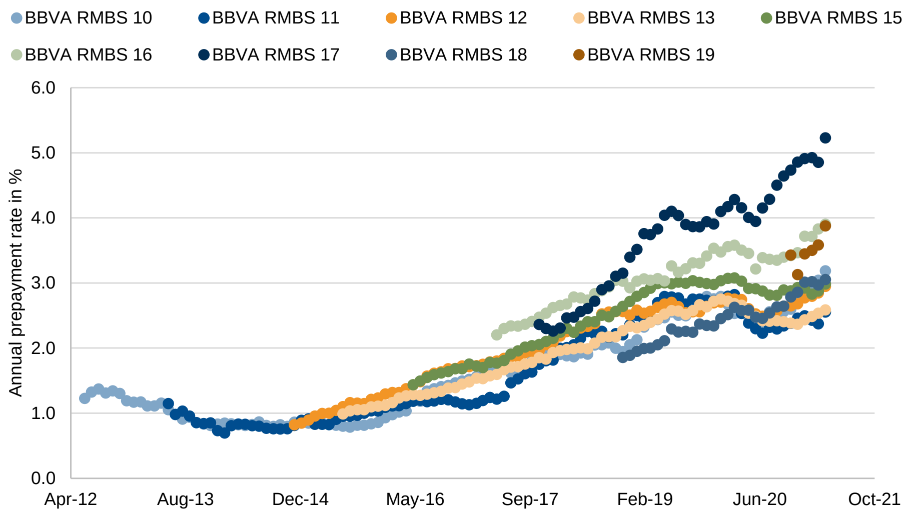
3.4.3. Constant prepayment rate (CPR)

Prepayment scenarios reflect a stress to historical observations

Our base case CPR assumption was 10%, which is stressed compared to historical observations on other BBVA RMBS transactions. However, this assumption incorporates the possibility that there may be significant early refinancing to secure currently low interest rates for a longer period of time, in light of current inflation expectations.

We also tested low CPR scenarios and found them to be generally beneficial for the rated instruments, as a longer outstanding portfolio would allow the transaction to benefit more from excess spread.

Figure 12: Annualised CPRs from previous BBVA RMBS transactions



Source: BBVA and EdT

4. Originator and servicer

Banco Bilbao Vizcaya Argentaria SA is a multinational financial services company based in Madrid and Bilbao in Spain. As one of the largest financial institutions in the world, it is present in Spain, South America, North America, Turkey and Romania.

The globally active financial group was founded in 1857 in Bilbao with its operational headquarters in Madrid. BBVA is the second largest bank after Banco Santander and is listed on the Madrid Stock Exchange, the New York Stock Exchange and the Mexican Stock Exchange. As of December 2020, BBVA's total assets were around EUR 727bn, it employed over 124,000 employees, had 79.9m customers and presences in more than 30 countries.

4.1. Sanctioning and underwriting

BBVA has strengthened its sanctioning processes since 2008

BBVA has strengthened its sanctioning processes since the 2008 financial crisis. Origination and underwriting policies have become more stringent, in line with the overall Spanish market.

BBVA-originated mortgage loans finance the purchase of first and second homes as well as new developments and, to a lesser extent, commercial properties. BBVA's extensive experience in originating these products is credit-positive for the transaction. Loans are originated at the branch level, online and, to a limited extent, through brokers. Loans are sourced from both existing and new customers. In the case of existing customers, an additional layer of protection stems from the bank's access to additional credit insights via its internal systems.

BBVA's standard mortgage loans have fixed or floating interest rates and are generally amortising with constant instalments. Cross-selling may allow borrowers to secure lower interest rates on their mortgages. BBVA grants certain flexibility features, such as the option to switch interest type, extend the maturity or take occasional payment holidays.

The sanctioning and underwriting processes of BBVA's mortgage business are generally manual decisions based on the respective employee's pre-defined level of decision-making power, supported by an automated credit scoring system. Information is collected from the customer and passed through an internal system that considers feedback based on the borrower's personal information, economic status and credit score. Additionally, BBVA can identify whether existing customers are in good standing with their respective account(s). A central back-office function processes and verifies the requisite documentation before approving a credit.

BBVA employs a 'reactive' scoring model that captures key data to assess creditworthiness, including information on income, debt and employment. The output of the model is 'positive', 'doubtful', or 'negative'. Approved loans are formally drawn at the applicant's local branch. 8.3% of all approved loans result from manual overrides.

4.2. Collateral appraisals

Third-party property valuations used for sanctioning

Collateral appraisals are conducted by independent third parties authorised by the Bank of Spain, consistent with Spanish market standards. The bank also performs statistical valuation updates as part of its monitoring process.

4.3. Servicing and recovery

We see BBVA's mortgage servicing and management of non-performing mortgages as adequate and in line with the high standards of European banking. The approach is reasonably proactive and diligent, with actions initiated soon after a payment is missed. Nevertheless, the recovery approach is cooperative as BBVA aims to preserve its customer relationship and avoid the sale of a potentially stress-tainted property.

BBVA outsources recovery activities to external agencies for all positions below EUR 100,000. The bank's recovery department monitors the performance of these external agencies.

5. Financial structure

5.1. Capital structure

Two classes of notes will be issued: Series A and Series B. The issuance proceeds will be used to purchase the portfolio of assets at par value. The notes will amortise sequentially. A subordinated loan from BBVA will fully fund a cash reserve at closing.

5.2. Cash reserve

Cash reserve provides liquidity protection

The transaction benefits from a fully funded cash reserve at closing, equal to 5% of the initial Series A and Series B notes' balance and provided by BBVA.

The reserve will amortise after a 3-year lock-up period to the lower of (i) the initial cash reserve, and (ii) the higher of (a) 10% of the outstanding rated notes´ balance and (b) a floor of 2.5% of the initial rated notes´ balance. The cash reserve will stop amortising if the share of delinquencies over the outstanding non-defaulted portfolio balance is equal to or higher than 1%.

The cash reserve will be available to cover senior costs, Series A interest and provision for portfolio defaults. Series B will only benefit from the cash reserve once the Series A notes have been repaid in full. The positioning of the cash reserve replenishment before the Series B interest may cause some temporary interest payment delays for the class, even in relatively benign default rate scenarios.

At the current 3-month Euribor level, the cash reserve can cover senior costs and Series A interest for several years. However, in the case of a servicer default, i.e. a default of BBVA, the reserve may not be available to cover senior cost and interest shortfalls if it is still deposited at BBVA, the issuer account bank.

5.3. Interest rate risk and hedging

Interest rate swap with BBVA hedges the interest rate risk in this transaction

Interest rate risk is mitigated in this transaction through an interest rate swap that the issuer will enter into with BBVA. Under the swap, BBVA will receive all the interest collected from the portfolio in exchange for an amount equal to the senior costs, Series A and B notes' interest and 1% of contractual excess spread. The reference notional for the swap is the non-delinquent outstanding balance of the underlying portfolio, i.e. all non-defaulted assets that are up to 90 days in arrears.

The swap covers fixed/floating risk, basis risk and reset mismatch risk.

5.4. Default definition

The relatively long default definition of the transaction prevents the effective usage of excess spread. The excess spread available during the first year of the transaction is generally not used to provision for defaults, due to the default definition of 12 months overdue.

5.5. Priority of payments

Senior noteholders benefit from sequential amortisation

The structure features a combined priority of payments, which ensures a good coverage of senior costs and Series A interest. The interest waterfall includes a turbo feature, as the repayment of the Series A notes' principal ranks prior to the payment of Series B interest.

There is a high likelihood that Series B will see some temporary interest shortfalls, due to the positioning of the Series A principal repayment and the cash reserve replenishment before the Series B notes' interest in the priority of payments (see Figure 13). The available excess spread partially mitigates the risk for Series B.

Combined waterfall is highly protective of Series A

Figure 13: Simplified available funds and priority of payments

	Simplified priority of payments
Available funds	
	Principal collections
	Interest earned from issuer account and eligible investments
	Cash reserve
	Net swap payments (if positive for the issuer)
Pre-enforcement	
i	Senior fees, expenses and taxes
ii	Net swap payments
iii	Interest due on Series A
iv	Series A target amortisation amount, i.e. the lesser of i) the difference between the outstanding rated notes' balance and the non-defaulted portfolio balance; and ii) the outstanding Series A notes' balance
v	Cash reserve replenishment up to target level, unless demoted to step vii)
vi	Interest due on class B
vii	Upon full amortisation of the Series A notes, Series B target amortisation amount, i.e. the lesser of i) the difference between the outstanding notes' balance and the non-defaulted portfolio balance; and ii) the outstanding Series B notes' balance
viii	Cash reserve replenishment up to target level
ix	Subordinated items
Post-enforcement	
i	Senior fees, expenses and taxes
ii	Net swap payments
iii	Interest due on Series A
iv	Series A target amortisation amount, i.e. the lesser of i) the difference between the outstanding rated notes' balance and the non-defaulted portfolio balance; and ii) the outstanding Series A notes' balance
v	Interest due on class B
vi	Upon full amortisation of the Series A notes, Series B target amortisation amount, i.e. the lesser of i) the difference between the outstanding notes' balance and the non-defaulted portfolio balance; and ii) the outstanding Series B notes' balance
vii	Subordinated items

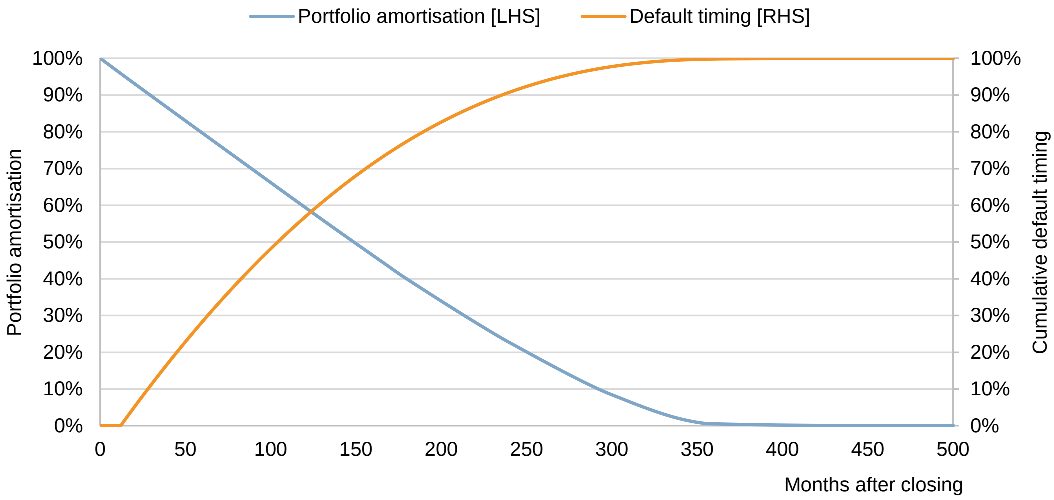
6. Quantitative analysis

We used a cash flow model, which captures the key analytical assumptions derived from our asset analysis as well as the transaction's structural features. The expected loss for each tranche was calculated using an inverse Gaussian default distribution for this static granular asset portfolio. The cash flow model also produced the expected weighted average life of the rated notes.

Front-loaded default timing considered

We derived a front-loaded default timing term structure, based on the portfolio amortisation schedule. Back-loaded default scenarios were less severe owing to credit enhancement build-up and the effect of seasoning on the portfolio. The cumulative default-timing assumptions are shown in Figure 14.

Figure 14: Default-timing assumption for the portfolio and portfolio amortisation profile

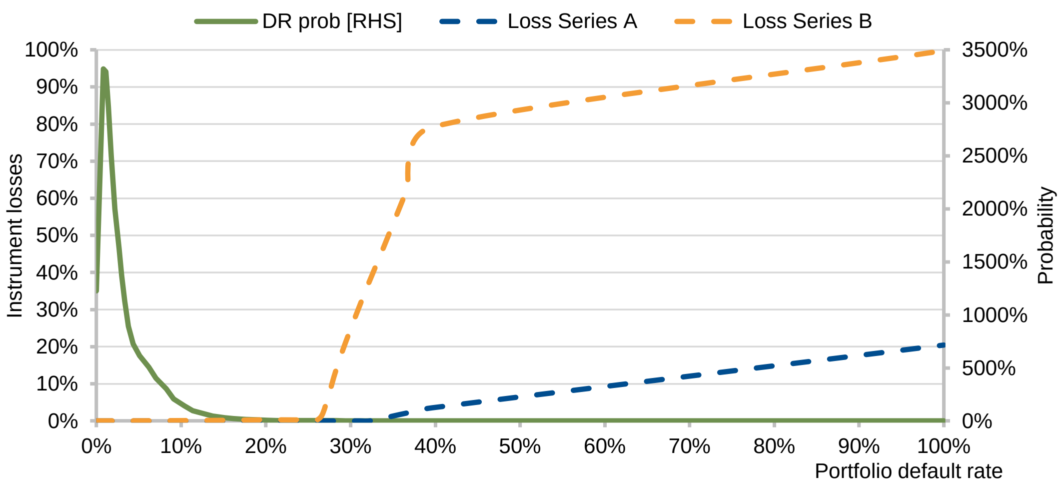


Source: Scope

Credit enhancement, structural features and recovery proceeds protect the rated notes

Figure 15 shows the losses of the rated notes at all portfolio default rates. It shows how credit enhancement, structural features, and recovery proceeds in the event of default will protect the rated notes.

Figure 15: Cash flow model results for mean default rate and coefficient of variation; rating case recovery rate



Source: Scope

Note: The probabilities displayed on the right-hand side axis must be seen in the context of the calculation of probability density

7. Rating stability

7.1. Rating sensitivity

The instruments show high resilience to our rating sensitivity scenarios

We tested the resilience of the rating against deviations in the main input parameters: the portfolio mean default rate and the portfolio recovery rate. This analysis has the sole purpose of illustrating the sensitivity of the rating to input assumptions and is not indicative of expected or likely scenarios.

The following shows how the ratings would change if the portfolio's expected default rate increased by 50% and the portfolio's expected recovery rate decreased by 50%, respectively:

- Class A: sensitivity to probability of default, zero notches; sensitivity to recovery rate, zero notches
- Class B: sensitivity to probability of default, zero notches; sensitivity to recovery rate, zero notches

7.2. Break-even analysis

No losses for rated notes at break-even or lower portfolio default rates

A break-even default rate analysis shows the resilience of the ratings.

Class A would have no losses at portfolio lifetime default rates of: i) 20.4% or lower, assuming a 0% recovery rate; or ii) 31.0% or lower, assuming a 39.0% rating-conditional recovery rate.

Class B would have no losses at portfolio lifetime default rates of: i) 1.4% or lower, assuming a 0% recovery rate; or ii) 2.7% or lower, assuming a 54.6% rating-conditional recovery rate. The losses for Series B in default scenarios below 26.0% are very low, as early default scenarios are mainly characterised by a time value of money loss for the Series B notes.

8. Sovereign risk

Sovereign risk does not limit the transaction's ratings

Sovereign risk does not limit any of the ratings. The risks of an institutional framework meltdown, legal insecurity, or currency convertibility problems due to Spain's hypothetical exit from the eurozone – a scenario which we deem unlikely – are not material for the notes' ratings.

The rating analysis considers the deteriorated economic environment and the current uncertainty regarding borrower performance once support measures provided to corporates and households cease.

Spain's GDP in 2020 contracted by 11% and is expected to revert to growth only once the pandemic ends. Unemployment is also expected to increase throughout 2021. So far, however, government support measures have prevented a significant adverse impact on Spanish private individuals' financial performance, as mortgage delinquencies have remained muted.

For more insight into our fundamental analysis of the Spanish economy, please refer to our press release on the Kingdom of Spain, dated 5 February 2021 (Scope takes no action on the Kingdom of Spain).

9. Counterparty risk

The transaction's counterparty risk does not limit the ratings on the senior notes. We do not consider any of the individual counterparty exposures to be excessive. However, given the concentration of all money-handling roles in BBVA, we consider the credit quality of BBVA to limit the highest achievable ratings of the Series B notes. All credit enhancement of the Series B notes, i.e. the cash reserve and the excess spread from the interest rate swap, is exposed to the bank.

Series A is less exposed to BBVA. The notes' credit enhancement consists of a sufficiently high share of overcollateralisation (6%), which makes it less dependent on the reserve fund and the interest rate swap excess spread.

9.1. Counterparty risk from servicer

BBVA's high credit quality and the standard nature of the assets mitigate servicer disruption risk

We expect a servicer replacement to be a remote scenario, given the high credit quality of BBVA and its status as globally systemically important bank. Moreover, the reasonably standard nature of the assets in the securitised portfolio would likely facilitate a smooth servicing takeover.

The cash reserve would be available to cover senior costs and Series A interest during a servicer transition period. BBVA will be the account bank holding the cash reserve from closing. However, considering the account bank replacement trigger in place, we expect the reserve to be already transferred to another account bank by the time a servicer replacement becomes necessary

Commingling risk is immaterial

Commingling risk from the exposure to BBVA as servicer is immaterial for the ratings due to the limited exposure and short holding periods. BBVA typically collects payments via direct debit in a general account in its name. Following receipt, collections are transferred internally, on a daily basis, into an account under the issuer's name, which is also held at BBVA.

In the event of the servicer's insolvency, the management company will ask the servicer to notify borrowers that their loans have been assigned to the issuer and to direct all subsequent payments to the issuer's account, held at a new account bank.

9.2. Counterparty risk from account bank and paying agent

BBVA will act as account bank, holding the cash reserve and collections from the assets until they are transferred to the investors on a payment date.

Account bank risk is mitigated by BBVA's high financial strength as well as by a replacement trigger upon the loss of a BBB rating by Scope.

The bank will also act as paying agent, subject to the same replacement provisions.

9.3. Set-off risk from originator

Immaterial set-off risk

Set-off risk is immaterial for the ratings.

A scenario in which set-off claims arise is remote due to BBVA's high credit quality. Further, set-off risk exposure is limited in Spain, as only liquid, due and payable credit rights prior to a declaration of insolvency can be set off against any deposits or credits against the originator.

All mortgage obligors have deposits with BBVA.

9.4. Exposure to the swap counterparty

Counterparty risk associated with the interest swap counterparty BBVA is sufficiently remote owing to its financial strength. Standard collateralisation and replacement triggers further mitigate this risk.

10. Legal structure

10.1. Legal framework

This securitisation is governed by Spanish law and represents a true sale of assets to a bankruptcy-remote vehicle without legal personality, represented by Europea de Titulizacion, SGFT, SA, the management company.

Changes to the documentation require formal approval by the Spanish stock market regulator (Comisión Nacional del Mercado de Valores).

10.2. Use of legal and tax opinions

We have received and reviewed legal opinions produced by Clifford Chance, S.L.P.U., which support our analytical assumptions on the transaction's legal and tax setup.

The well tested transaction setup, involving experienced parties, also mitigates the legal setup risks of the transaction. Other legal risks are incorporated in our analysis and reflect our understanding of the Spanish securitisation framework.

11. Monitoring

Scope analysts are available to discuss all the details surrounding the rating analysis

We will monitor this transaction based on performance reports from the management company as well as other available information. The ratings will be monitored on an ongoing basis.

Scope analysts are available to discuss all the details surrounding the rating analysis, the risks to which this transaction is exposed and the ongoing monitoring of the transaction.

12. Applied methodology and data adequacy

We analysed this transaction using our General Structured Finance Rating Methodology, dated December 2020, and our Methodology for Counterparty Risk in Structured Finance, dated July 2020, both available on our website, www.scoperatings.com.

BBVA provided default data, segmented by quarterly vintage of origination, using both a ‘90 days past due’ and a ‘180 days past due’ default definition, and covering a period from 2013 to 2020. BBVA also provided recovery data, segmented by quarterly vintage of default, using both a ‘90 days past due’ and a ‘180 days past due’ default definition, and covering a period from Q3 2013 to Q4 2020. In addition, BBVA provided line-by-line repossession data to complement the vintage analysis on historical recovery data, as well as dynamic delinquency and prepayment information from previous BBVA RMBS transactions. The data provided was sufficiently granular.

I. Summary of portfolio characteristics

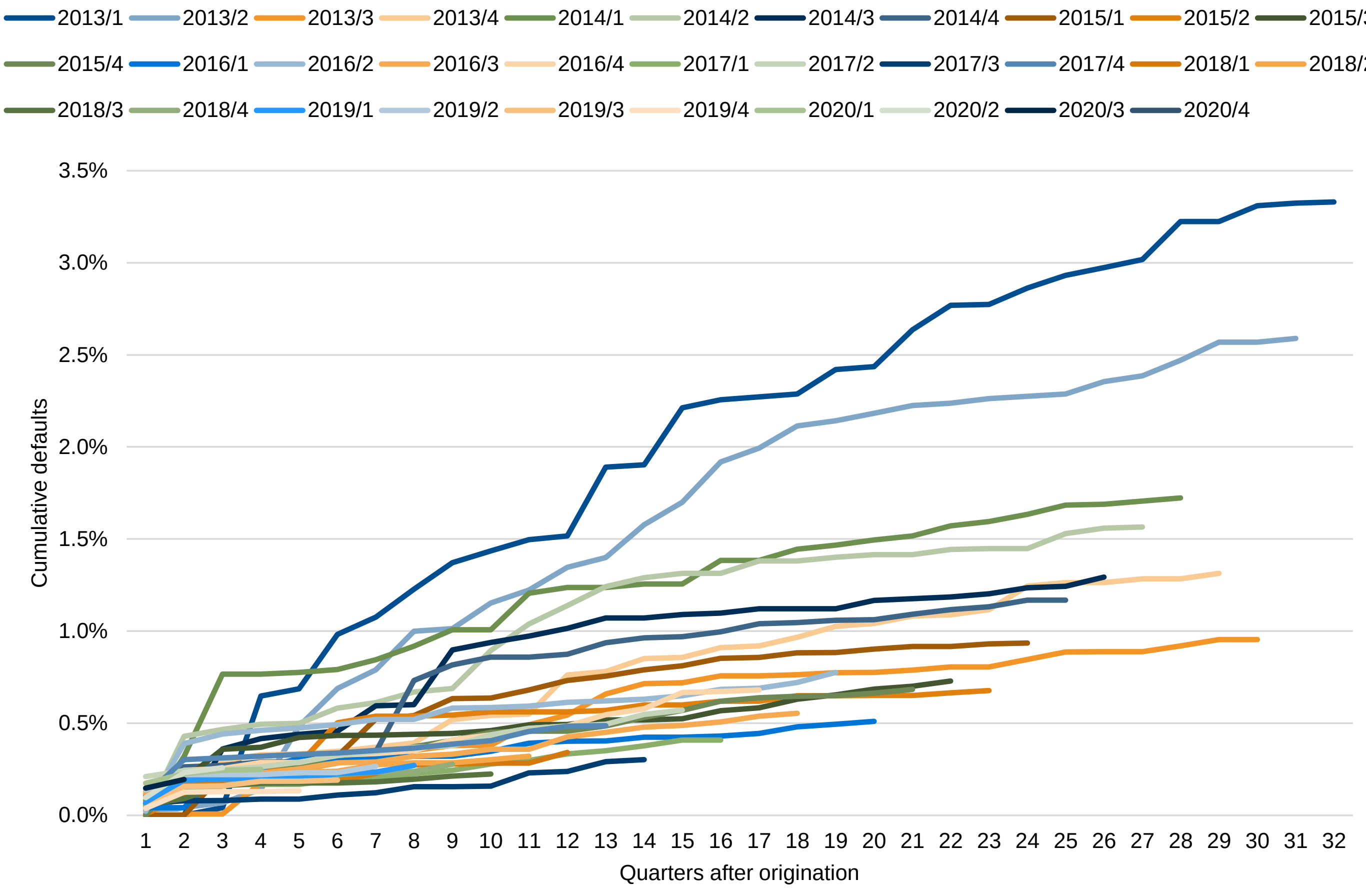
Key features	Closing portfolio as of 14 June 2021
Originator	BBVA and affiliates
Closing date	14 June 2021
Portfolio balance	**EUR 2,500m**
Number of assets	18,920
Average asset size	EUR 132,127
Maximum asset size	EUR 1,694,269
Minimum asset size	EUR 53,764
Weighted average seasoning	3 years
Weighted average remaining term	25 years
Largest obligor	0.07%
Top 10 obligors	0.38%
Largest region (% of balance)	28% (Catalonia)
Top three regions	62% (Catalonia, Andalusia, Madrid)
Current weighted average nominal interest rate	1.4%
Fixed-rate loans (% of balance)	62%
Current weighted average loan-to-value ratio	69%
Current weighted average debt-to-income ratio	24%
Amortising loans	100%

Source: Scope

II. Historical data provided by the originator and the management company

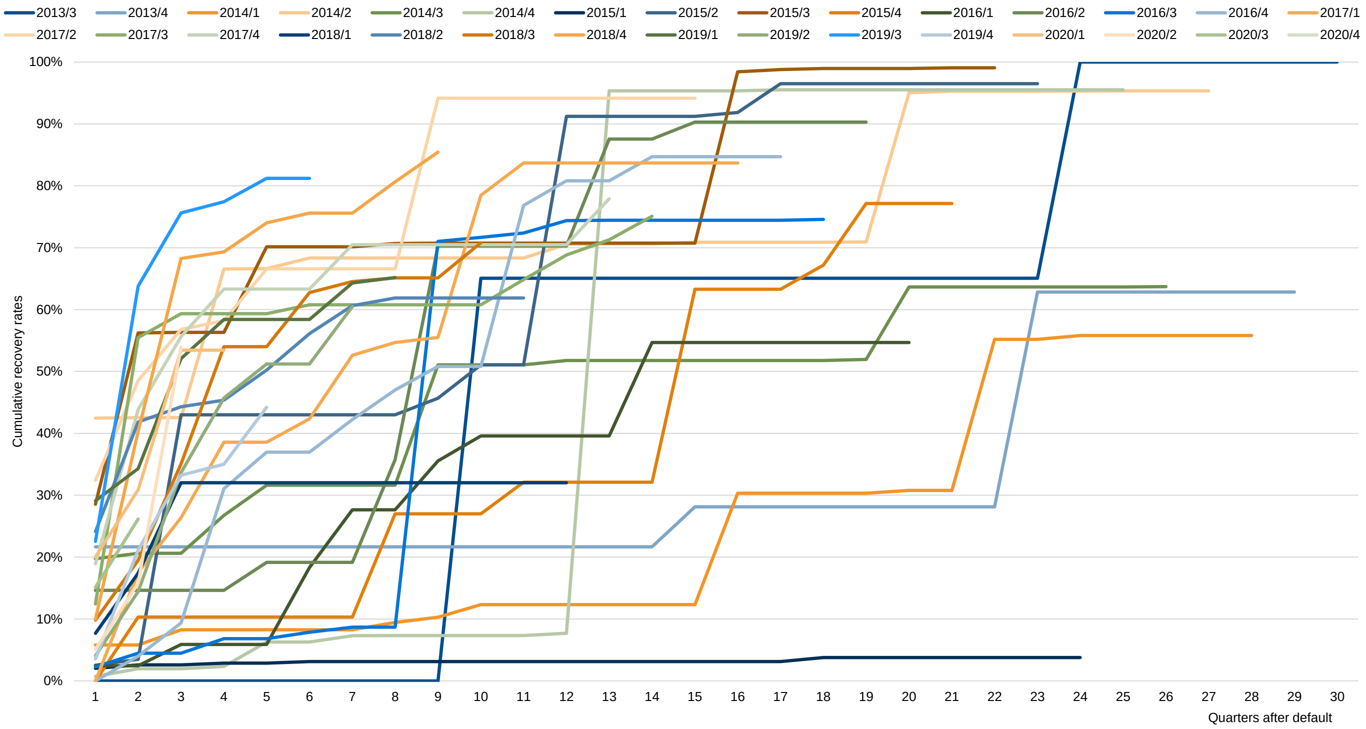
BBVA and EdT provided historical vintage data and line-by-line repossession data on BBVA's mortgage book covering the 2013-20 period for defaults, Q3 2013-20 for recoveries and 2010-21 for repossession data.

Figure 16: Cumulative defaults – 90+ dpd reference



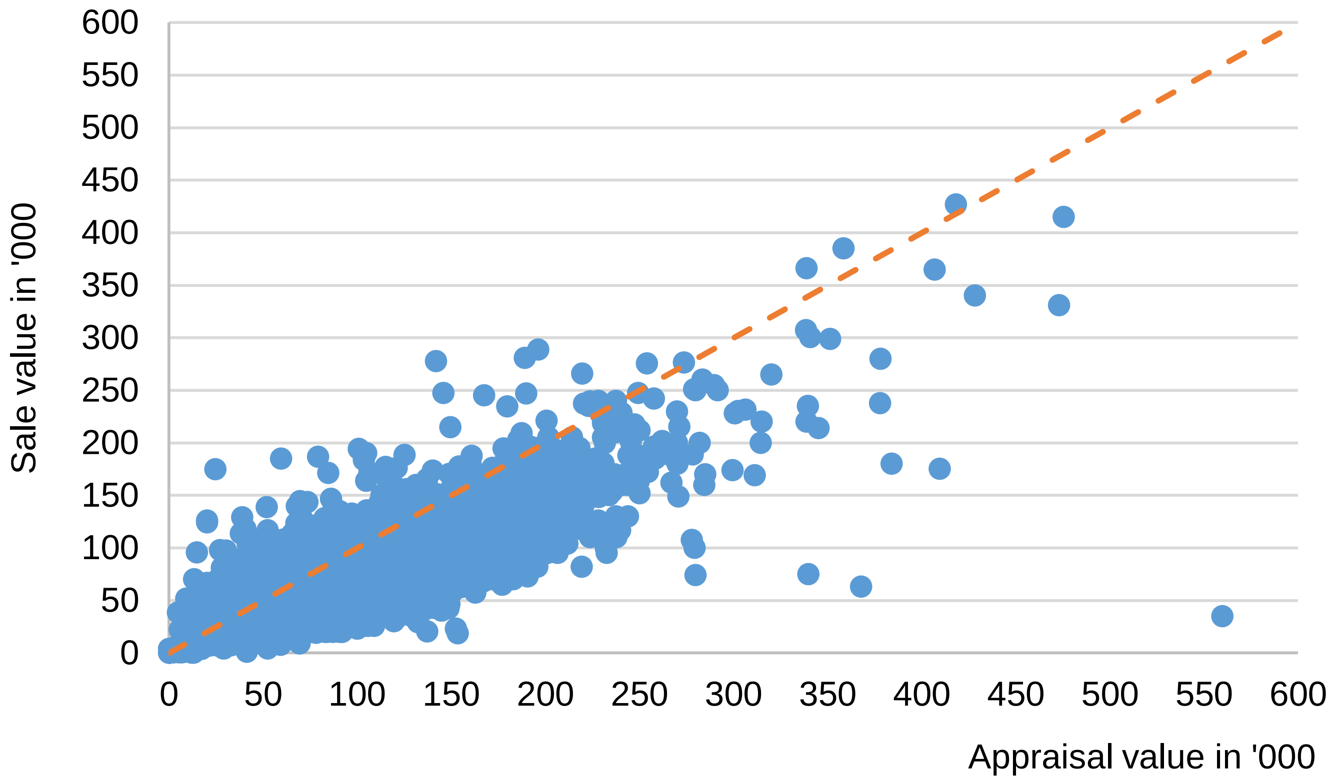
Source: BBVA and EdT

Figure 17: Cumulative recoveries – 90+ dpd reference



Source: BBVA and EdT

Figure 18: Repossession data: sales from 2010 to 2021; 6,397 data points



Blue dots below the dashed orange line represent instances when the property sale price was below its last valuation

Source: BBVA and EdT

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