

# BBVA CONSUMO 11 FT

## Consumer ABS/Structured Finance



### Ratings

Series	Rating	Notional (EURm)	Notional (% assets)	CE* (% assets)	Coupon	Final maturity
Class A	AA-SF	2,350.0	94.0	6.0	0.02%	16 December 2033
Class B	BBB-SF	150.0	6.0	0.0	0.50%	16 December 2033
Rated notes		2,500.0				

Scope's quantitative analysis is based on the portfolio dated 15 March 2021 and subsequent updates in the prospectus, provided by the originator. 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](#).

\* credit enhancement reflects subordination only.

### Transaction details

Purpose	Liquidity/Funding
Issuer	BBVA CONSUMO 11, Fondo de Titulización
Originator	Banco Bilbao Vizcaya Argentaria SA (BBVA)
Servicer	Banco Bilbao Vizcaya Argentaria SA
Closing date	15 March 2021
Payment frequency	Quarterly

The transaction is a true-sale securitisation of a EUR 2,500m static portfolio of unsecured consumer loans granted to individuals in Spain by BBVA.

### Rating rationale

The ratings reflect the legal and financial structure of the transaction; the quality of the underlying collateral in the context of the Spanish macroeconomic environment; the counterparty credit risk exposure to BBVA as originator, servicer, account bank and paying agent; and the ability of Europea de Titulización SGFT S.A. as the management company.

The ratings consider the notes' protection against portfolio losses, provided by their respective credit enhancement. The class A rating benefits from sequential note amortisation that results in an expected weighted average life of 2.0 years. The class B notes' longer weighted average life of 6.0 years expose them to uncertainties in the Spanish economy. In addition, the cash reserve can cover eventual class B payment shortfalls, but only after the class A notes have fully amortised.

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### Related Research

[Covid-19: household financial resilience put to the test, May 2020](#)

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## Rating drivers and mitigants

### Positive rating drivers

**Excess spread.** Significant excess spread (4.9% assumed at closing) protects against potential collateral losses.

**Simple structure.** The deal features a swapless, strictly sequential, two-tranche structure with a combined priority of payments and an adequately sized cash reserve.

**No interest rate risk.** Interest rate risk is immaterial because 98.8% of the assets are fixed-rate loans and the notes pay a fixed-rate coupon.

**Experienced loan originator and servicer.** BBVA has a long record (164 years) in originating and servicing consumer loans in Spain. The bank is the second largest financing platform in Spain. Its global footprint provides additional experience from other jurisdictions.

**Class A short expected life.** The class A notes are expected to be exposed for a relatively short period to counterparty risk and possible macroeconomic deterioration. The class A's expected weighted average life is 2.0 years under a 15% constant prepayment rate scenario.

### Upside rating-change drivers

A faster-than-expected Spanish economic recovery after the Covid-19 pandemic will drive stronger deal performance and could positively impact the ratings.

### Negative rating drivers and mitigants

**Counterparty concentration.** BBVA performs all counterparty roles in the transaction. The high credit quality of BBVA partially mitigates counterparty risk. There are also replacement triggers at loss of a BBB rating for the account bank and paying agent roles.

**Weak macroeconomic outlook.** The Spanish economy is currently challenged by two adverse events, the Covid-19 pandemic and the general economic slowdown in Europe, which we expect to result in rising unemployment and decreasing household income.

### Downside rating-change drivers

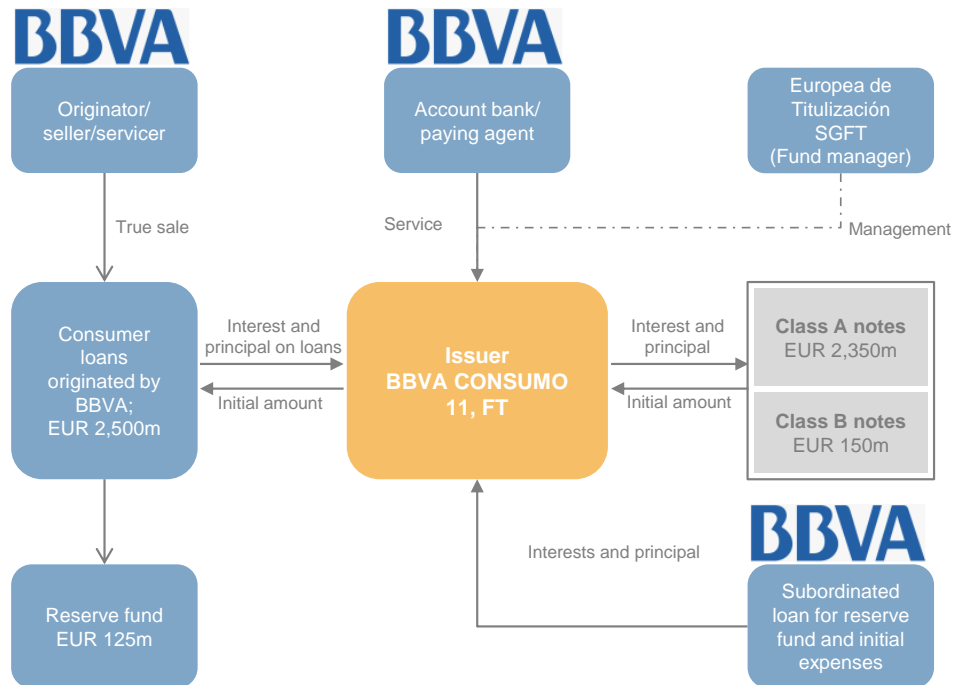
Higher-than-expected defaults and/or lower-than-expected recoveries upon asset default could negatively impact the ratings.

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## 1. Transaction summary

**Figure 1: Simplified transaction diagram**



Source: Transaction documents and Scope.

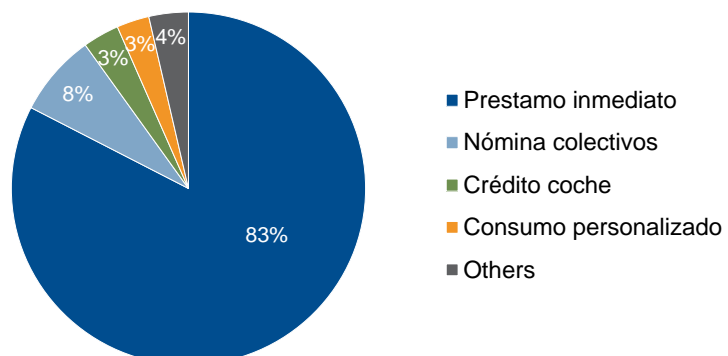
BBVA CONSUMO 11, FT is BBVA's 11th consumer finance transaction and the fourth ABS publicly rated by Scope. The EUR 2,500m transaction is a static cash securitisation of a Spanish portfolio of fully amortising, unsecured consumer loans granted by BBVA to individuals.

## 2. Asset analysis

### 2.1. Contract type

The portfolio consists of unsecured consumer loans granted to finance general consumer expenditures for durables, vehicles and services. Since 2014, BBVA has mainly originated 'préstamo inmediato' loans, a product type granted solely to borrowers who have been BBVA clients for at least six months. This enables the bank to better assess customer credit quality and the client to access a pre-approved loan amount. The securitised portfolio (Figure 2) has very similar proportions of loan products as in BBVA's consumer loan book.

**Figure 2: Securitised contract-types**



Source: Transaction documents and Scope.

**2.2. Securitised assets**

The loans in the securitised pool were originated between 2015 and 2020, 87.1% of which were originated after 2019.

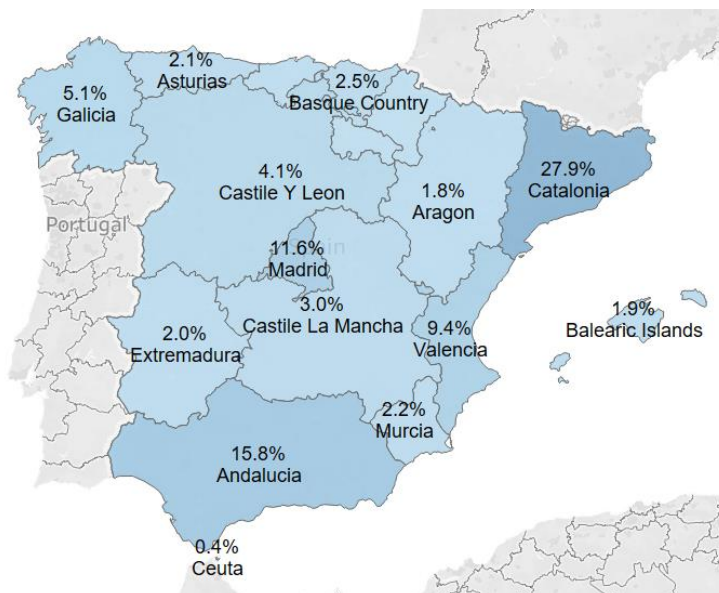
Fixed-rate loans make up 98.8% of the pool, with the remaining being floating-rate credits indexed to 12-month, one-month or six-month Euribor. The weighted average coupon of the portfolio is currently 6.8%. We analysed the transaction in the context of the portfolio-covenanted minimum of 6.0%.

The loan portfolio is approximately 17.6 months' seasoned and has a weighted average remaining term to maturity of approximately 5.3 years. The amortisation scheme is 100% French.

**2.2.1. Regional distribution**

The three largest regions of the originated assets account for 55.3% of the portfolio. Catalonia has the highest borrower concentration at 27.9%.

**Figure 3: Regional distribution of the portfolio**

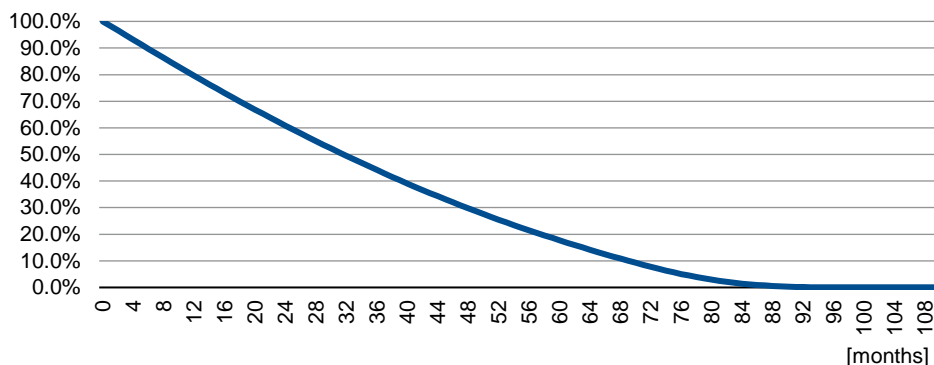


Source: Transaction documents and Scope.

**2.3. Amortisation profile**

The expected amortisation profile reflects the weighted average remaining term and amortisation scheme of the underlying assets. Figure 4 shows the development considered in our analysis.

**Figure 4: Portfolio amortisation profile (0% prepayment, 0% defaults)**



Senior notes have short exposure to both counterparty risk and possible macro-economic decline

### 2.4. Portfolio modelling assumptions

**Figure 5: Portfolio modelling inputs**

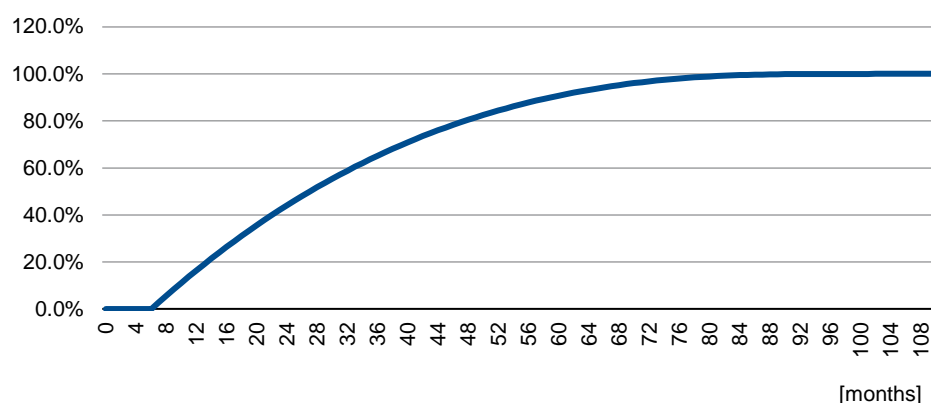
Parameter	Inputs
Mean default rate	5.5%
Coefficient of variation	55.5%
Base case recovery rate	20.0%
AAA rating-conditional recovery rate	12.0%
Constant prepayment rate, low	0.0%
Constant prepayment rate, high	15.0%

#### 2.4.1. Default rate analysis on portfolio

We calibrated our portfolio assumptions based on 2009-20 vintage data, which reflects the performance of BBVA's retail loan book in Spain.

We considered a front-loaded default-timing term structure, implying a constant default intensity throughout the transaction's life. The cumulative default-timing assumption is shown in Figure 6. Defaults are classified as 180+ days past due, in line with definitions in the documentation.

**Figure 6: Default-timing assumptions**



#### 2.4.2. Recovery rate

We derived a base case recovery rate of 20.0% and estimated a recovery lag of 36 months based on BBVA's recovery vintage data. This is in line with the timing observed for comparable Spanish transactions.

The base case recovery rate is stressed with growing haircuts as the target rating becomes higher (see Figure 7). Therefore, for the class A analysis, we assumed a 13.6% recovery rate.

**Figure 7: Rating-conditional recovery rates**

Rating-conditional stress	AAA	AA	A	BBB	BB	B
Haircut to base case	40.0%	32.0%	24.0%	16.0%	8.0%	0.0%
Recovery assumption	12.0%	13.6%	15.2%	16.8%	18.4%	20.0%

#### 2.4.3. Constant prepayment rate (CPR)

We tested the class A and class B notes against 0% and 15% prepayment rates. BBVA did not provide product-specific prepayment information on their loan book. We instead relied on prepayment references from previous BBVA securitisations' prepayment levels, which are in the range of 11.5%-14.5%.

Analysis incorporates rating-conditional recovery assumptions

We tested the senior notes against a 15% CPR assumption

### 3. Financial structure

#### 3.1. Capital structure

Two classes of strictly sequential, fixed-rate-paying notes were issued. Issuance proceeds from the senior and junior notes were used to purchase the initial portfolio of assets. BBVA provides an additional subordinated loan to fully fund a cash reserve on the closing date.

#### 3.2. Reserve fund

The structure features a fully funded cash reserve, provided by BBVA, at EUR 125m, which is equal to 5.0% of the initial notes' balance. This reserve fund provides liquidity support to the class A notes and then to class B notes once the class A is fully paid.

The reserve fund can cover costs and senior notes' interest for approximately 10 interest payment dates. This will vary depending on the level of the reserve at a certain period. The target level for each payment date is calculated as the lesser of i) EUR 125.0m; and ii) the greater of 10% of the total outstanding notes balance and EUR 62.5m. The reserve fund level will only reduce if i) two years have elapsed since closing; ii) the delinquent balance is less than 1.0% of the non-defaulted balance; and iii) cash is sufficient to replenish the reserve at the target level at the corresponding payment date.

#### 3.3. Priority of payments

The structure features a combined priority of payments that materially protects against payment interruption. Principal collections from the assets can be used to make timely interest payments on the notes (see Figure 8).

**Figure 8: Priority of payments and available funds**

Priority of payments	Early liquidation priority of payments
<b>Available funds</b> Collections from assets, treasury account and reserve fund.	<b>Available funds</b> All SPV moneys, including funds from liquidation of assets and reserve fund.
1) Taxes and expenses (ordinary and extraordinary) 2) Class A interest 3) Class A principal 4) Reserve fund replenishment, if A) Outstanding balance of class A > 0 5) Class B interest 6) Class B principal 7) Reserve fund replenishment (in case deferred to position 7) 8) Subordinated items	1) Expenses and taxes payable upon liquidation of the fund 2) Ordinary, extraordinary expenses and taxes 3) Class A interest 4) Class A principal 5) Class B interest 6) Class B principal 7) Subordinated items

#### Senior bondholders benefit from sequential amortisation

#### 3.4. Amortisation and provisioning

We believe that the combination of strictly sequential amortisation, a reserve fund and excess spread effectively protects the senior notes. The amount of amortised principal is calculated based on the difference in the non-defaulted portfolio balance in each period.

#### 3.5. Accounts

The issuer has a treasury account that collects all asset proceeds and holds the reserve fund. The collections from the portfolio are received by the servicer and transferred to the fund's account within two business days.

### 4. Originator and seller

BBVA is an experienced and well-established lender in the Spanish consumer loan market. It is the second largest originator in Spain's consumer lending space through its network of over 2,500 retail branches, complemented by its online banking presence.

BBVA's value proposition – customer relationship banking – allows it to originate products at high margins and a reduced credit risk.

BBVA is a sophisticated bank whose functions, systems, processes and staff meet European banking standards.

BBVA's interests are aligned with those of the noteholders. The bank has provided a 5.0% reserve fund and is entitled to full idle excess spread from the portfolio, which creates significant subordinate interest in the transaction. In addition, the Spanish securitisation framework sets out that securitised and non-securitised assets must be treated the same on the balance sheet.

#### **4.1. Sanctioning and underwriting**

BBVA has strengthened its sanctioning processes since the 2008 financial crisis, after which origination and underwriting policies have become more stringent.

Consumer loans finance the purchase of goods or services such as home furnishings, travel, and vehicles. BBVA's extensive experience in originating these products is credit-positive for the transaction. Loans are originated both at the branch level and online; the latter method has a much lower borrowing cap than the former, which we consider a prudent method to limit online fraud. 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 networked system. The bank's top originated product, préstamo inmediato, is a pre-approved loan product granted only to customers that have been with the bank for more than six months. This product's lending conditions were tightened in 2014, after which obligors can use the 'pre-approved' amount only once.

The sanctioning and underwriting processes of BBVA's retail network are highly automated to minimise time lags and operational risks. Information is collected from the customer and passed through an online system that provides immediate 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 has a two-track scoring system. One consists of a 'proactive' scoring model that uses behavioural data on existing customers. If a borrower's accounts are in good standing and there is sufficient room for credit expansion, the borrower may be eligible for additional credit. The second is the 'reactive' scoring model that captures key data to assess creditworthiness, including on income, debt and employment. The output of the model is 'positive', 'doubtful', or 'negative'. Approved loans are formally drawn up at the applicant's local branch.

#### **4.2. Servicing and recovery**

We see BBVA's loan servicing and management of non-performing loans as adequate. The approach is reasonably proactive and diligent, with actions initiated on the first day after a payment is missed. Nevertheless, the recovery approach is soft because BBVA aims to preserve its customer relationships. This strategy is evident in the bank's above-average recovery rates on consumer credit originated from its own branch network, implying success in supporting delinquent borrowers over long periods.

BBVA outsources recovery activities to external agencies for all positions below EUR 100,000 (the outstanding principal of each securitised loan is below this threshold). BBVA's recovery department monitors the performance of these external agencies.

**Adequate and proactive servicing and recovery processes**

## 5. Quantitative analysis

The ratings of the notes are based on our cash flow analysis. We also account for the current Spanish macroeconomic scenario, taking a forward-looking view on macroeconomic developments.

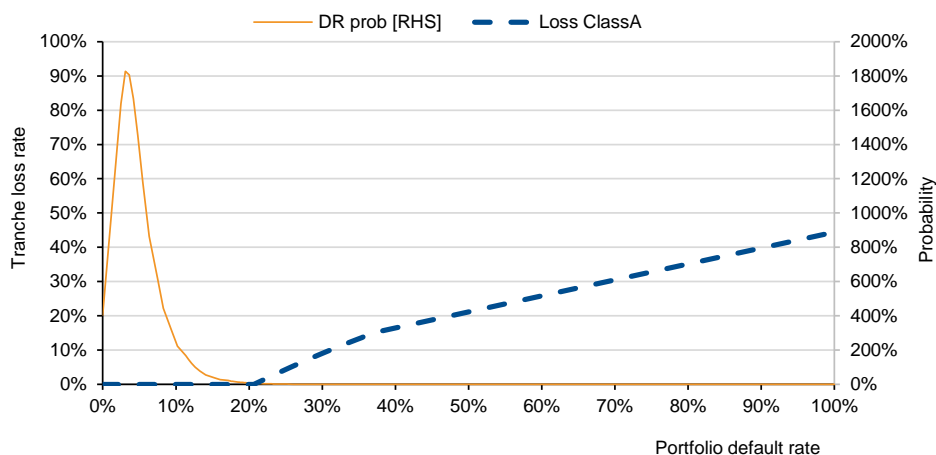
We calculated losses on each note class by projecting the cash flow generated by the securitised portfolio, accounting for the transaction's structural features. For the asset side, our main quantitative inputs consist of our assumptions on default probability distribution (assumed to be Inverse Gaussian), cure rates, default timing, recovery rates, recovery timing, prepayment rates, asset amortisation, and portfolio yield.

For the liability side, the main inputs were the priorities of payments, size of the notes, expected coupons, transaction fees and expenses, and the reserve fund.

The quantitative analysis determined the cash flows available for the tranches in each default scenario as well as the associated probability of that scenario, producing an expected weighted average life for each tranche.

Figure 9 shows the losses of the senior notes at all portfolio default rates. The chart shows how credit enhancement and excess spread protect the tranche, as well as recovery proceeds in case of default.

**Figure 9: Cash flow model results for base case mean DR and CoV; rating case RR and cure rate**



Note: The probabilities displayed on the right-hand side axis have to be considered in the context of the calculation of the probability density.

## 6. Rating stability

### 6.1. Rating sensitivity

We tested the resilience of the rating against deviations of 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 results would change when the portfolio's expected default rate is increased by 50% and the portfolio's expected recovery rate is reduced by 50%, respectively compared to the assigned credit ratings:

- Class A, sensitivity to probability of default, three notches; sensitivity to recovery rates, zero notches.
- Class B, sensitivity to probability of default, two notches; sensitivity to recovery rates, zero notches.

**Sovereign risk does not limit the transaction's ratings**



## 7. Sovereign risk

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, are immaterial, especially given the short expected portfolio life of 2.9 years.

## 8. Counterparty risk

BBVA performs all counterparty roles. The ratings also capture the transaction's exposure to BBVA, which we do not consider to be excessive.

### 8.1. Operational and commingling risk from servicer

We consider a replacement of BBVA as the portfolio's servicer to be highly unlikely because its replacement would probably be more disruptive than a resolution process, under which BBVA would continue as a going concern. This view is supported by BBVA's relevance in the Spanish economy and the current framework for orderly bank restructuring in Europe.

Commingling risk from the exposure to BBVA is mitigated by BBVA's credit quality. In addition, a maximum holding period of two days for collections in BBVA's general accounts limits potential commingling severity.

### 8.2. Counterparty risk from account bank and paying agent

Credit risk arising from the exposure to the account bank and paying agent is mitigated by the structural risk-substitution covenants. BBVA will be replaced in the role of account bank and paying agent upon loss of BBB, in line with our counterparty criteria.

### 8.3. Set-off risk from originator

BBVA's credit quality makes set-off risk sufficiently remote.

## 9. Legal structure

### 9.1. Legal framework

This securitisation is governed by Spanish Law and has been structured as a true sale of the assets to a bankruptcy-remote special purpose vehicle without legal personality. The special purpose vehicle is represented and managed by Europea de Titulización SGFT S.A., the management company. The legal opinion produced by Clifford Chance, S.L.P.U. supports our analytical assumptions regarding the legal and tax setup of the transaction.

This securitisation has been incorporated under the new, more flexible legal form called 'Fondo de Titulización' (FT, securitisation fund). The FT legal form was introduced by the new Spanish law to promote corporate financing (Ley 5/2015), effective since 28 April 2015. Law 5/2015 reformed the Spanish securitisation framework and replaced 'Fondo de Titulización de Activos' (asset securitisation funds) and 'Fondos de Titulización Hipotecaria' (mortgage securitisation funds).

### 9.2. Loan modifications

The documentation allows the servicer to modify the outstanding portfolio with respect to the interest rate and the loan maturity, but within limits to avoid negative carry for the transaction and ensure amortisation by the transaction's legal final maturity. For instance, the minimum weighted average interest rate of the portfolio (after negotiation) is 5.5% and a loan's maturity cannot be extended beyond October 2030, three years before the transaction's legal final maturity. In addition, loans whose maturities are extended cannot exceed 10% of the notes' amount at closing.

Servicer replacement unlikely

Limits on loan modifications



## **10. Monitoring**

We will monitor the ratings based on performance reports from the management company of the securitisation fund, 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 ratings.

## **11. Applied methodology and data adequacy**

For the analysis of this transaction, we applied our Consumer and Auto ABS Rating Methodology dated 3 March 2021, General Structured Finance Rating Methodology dated 14 December 2020, and Methodology for Counterparty Risk in Structured Finance dated 8 July 2020. All are available on our website, [www.scoperatings.com](http://www.scoperatings.com).

BBVA provided us with default and recovery data, segmented by quarterly vintage of origination, referring to '90 days past due' and '180 days past due' default definitions. The default rate data and recovery rate data provided in the context of this transaction cover a period from 2013 to 2020. We also used 2009-12 vintage data previously provided by BBVA in the context of other publicly rated transactions. Vintage data was constructed from a sample that is representative of the securitised portfolio.



# BBVA CONSUMO 11 FT

## Consumer ABS/Structured Finance

### I. Summary of portfolio characteristics

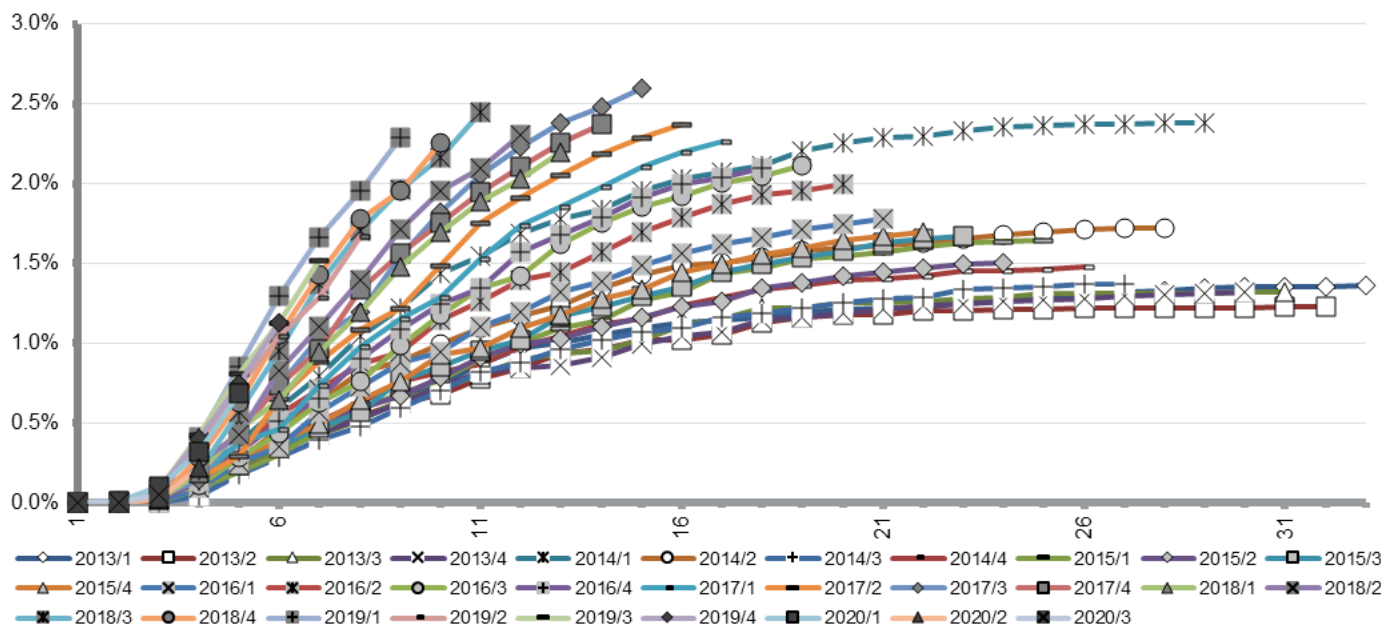
Key features	Closing portfolio (15 March 2021)
Originator (% of balance)	Banco Bilbao Vizcaya Argentaria S.A.
Closing date	15 March 2021
<b>Portfolio balance (EUR m)</b>	<b>2,500.0</b>
Number of assets	265,704
Average asset size (EUR)	9,409.0
Maximum asset size (EUR)	89,553.9
Minimum asset size (EUR)	1,649.6
Weighted average life (0% default rate and 0% CPR) (years)	2.9
Weighted average seasoning (years)	1.5
Weighted average remaining term (years)	5.3
Largest obligor	0.004%
Top 10 obligors	0.030%
Largest region	27.9% (Catalonia)
Top three regions	55.3%
Current weighted average coupon	6.8%
Fixed-rate loans (% of balance)	98.8%
Variable-rate loans (% of balance)	1.2%
Amortising loans	100.0%

**II. Vintage data provided by the originator**

BBVA provided 180 'days past due' (dpd) delinquency and recovery performance data, which is aligned with the default definition in the transaction documents. BBVA also provided 90 dpd delinquency and recovery performance data as a reference. We considered the information in our analysis as the foundation for the calibration of the default rate, coefficient of variation and base case recovery rate.

Vintage data is granular and representative for the portfolio.

**Figure 10: Consumer loans – 180dpd delinquency vintage data presented by originator**



**Figure 11: Consumer loans – 180dpd recovery vintage data presented by originator**

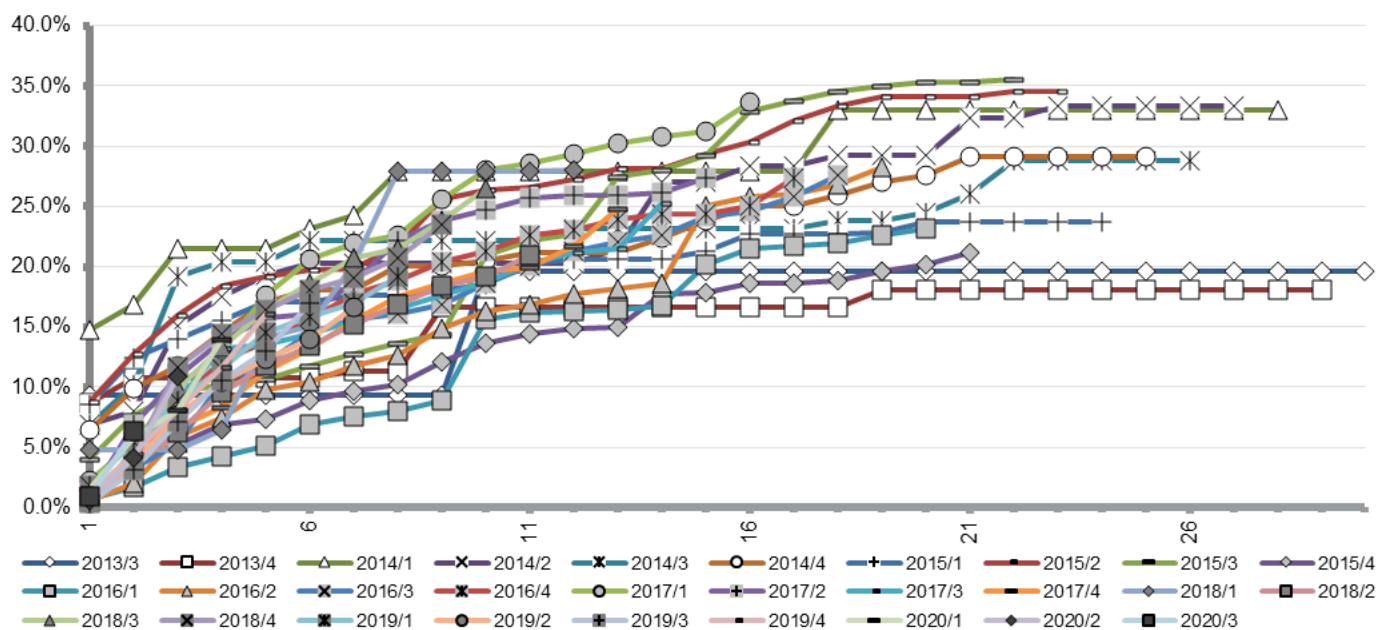


Figure 12: Consumer loans – 90dpd delinquency vintage data presented by originator

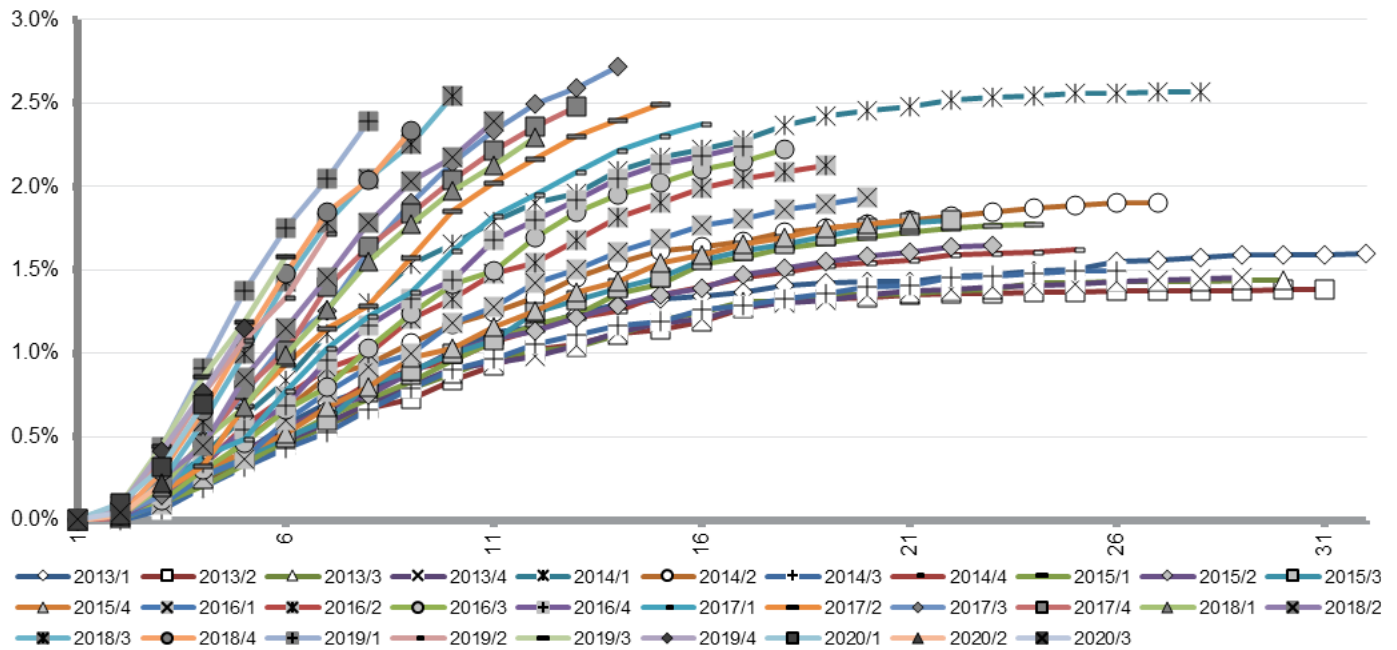
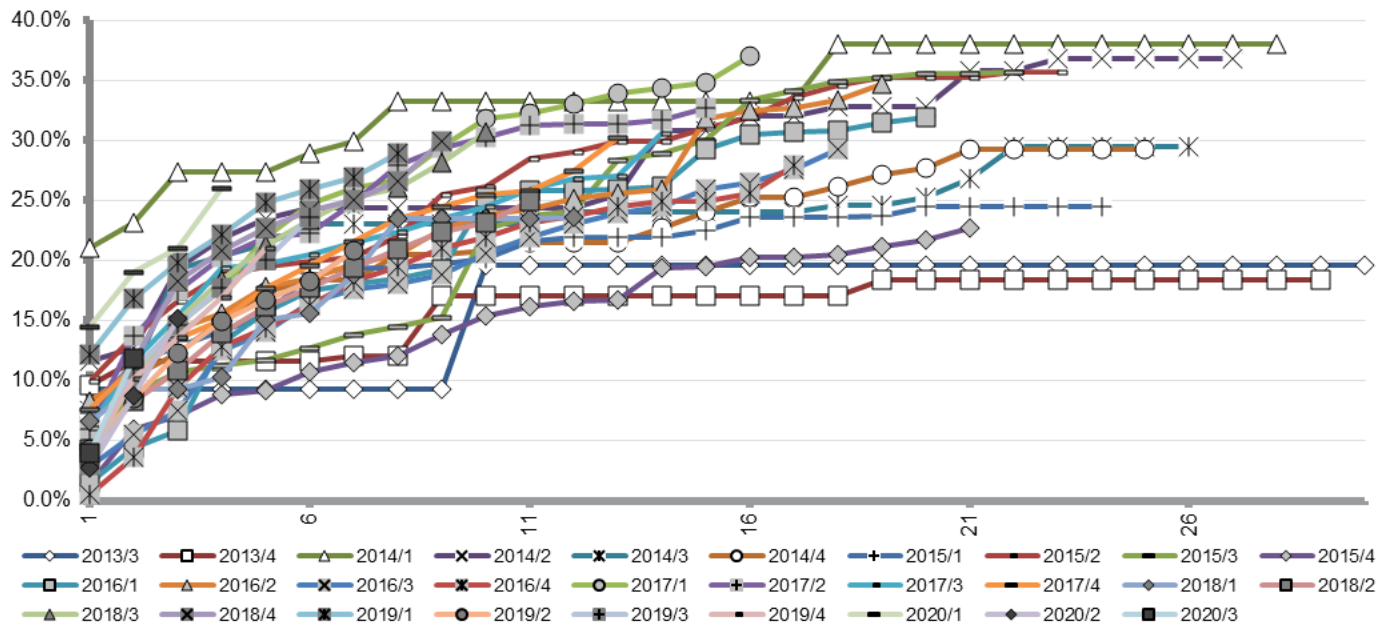


Figure 13: Consumer loans – 90dpd recovery vintage data presented by originator





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