

MORTGAGE CREDIT ACTIVITY

As of JUNE 2020

October 2020

Overview

The COVID-19 pandemic is thoroughly marking the course of economies around the world, which are focused on containing the spread of the virus and bending the curve of coronavirus infections. However, measures taken in the health field have in turn prevented the smooth functioning of economic markets. This explains the deterioration observed in the Spanish economy during the first half of the year, which left a -4.2% year-on-year decrease in the first quarter and a -21.5% year-on-year drop in the second quarter, with trade, transport and accommodation and restaurants sectors at the top of the falls.

Obviously, this situation is also having an impact on household consumption and investment, which have seen a slowdown of just over 25% in the second quarter of 2020.

With regard to lending activity, this context of clear deterioration and volatility presents two different dynamics depending on the financing segment we are dealing with. In this respect, it can be seen that the outstanding credit to the resident private sector, after almost a decade of successive falls, increased by 2.2% year-on-year in the first half of 2020. Nevertheless, this favourable performance has been largely supported by relief measures aimed to SMEs and large enterprises granted under the public guarantee schemes authorized by the Government in collaboration with the banking sector. On this basis, can be seen that outstanding credit to productive activities has grown extraordinarily this half of the year in the vast majority of sectors (+7.2% in aggregate terms) and, in particular, in the accommodation and restaurant sector (+26.9%), while credit to household has continued to post negative, even at a more intense pace (-1.8% year-on-year) this second quarter of 2020.

In parallel, the outstanding mortgage balance granted by deposit-taking institutions is within the expected path, recording a 2.6% year-on-year decrease in the first half of 2020. In absolute terms, around EUR 16,813 million have been written off over the last 12 months, so that the balance held in the portfolio amounts to EUR 637,780 million¹. While the item for banks and savings banks has slightly slowed down the rate of deleveraging, from -2.9% in the second half of 2019 to -2.8% in the first half of this year, the mortgage balance of credit cooperatives has recorded a year-on-year decrease of -0.2% this half of the year, in contrast to the 0.8% increase observed at the end of 2019.

¹ This figure is obtained from the financial statements that banks on a regular basis report to the Bank of Spain following the introduction and adoption of the regulatory changes contained in Circular 5/2014 of 28 November on information rules public and reserved financial statements, and models of financial statements. It does not include information from Financial Credit Establishments (EFCs). For a greater contrast of data please refer to the methodological note of the mortgage credit series published on our website.

With regard to the resources used by credit institutions to finance their mortgage pools, there was a 2.7% year-on-year increase in the outstanding balance of mortgage securities as of June 2020, amounting to EUR 324,114 million. This outstanding balance would be funding approximately half of the mortgage portfolio. In particular, mortgage covered bonds, despite the fall recorded in mortgage activity (newly originated loans), has maintained a very dynamic tone, growing by 6.7%, on annual terms, whereas mortgage-backed securities (MBS) continued to fall year-on-year, about 5.8% as of June 2020.

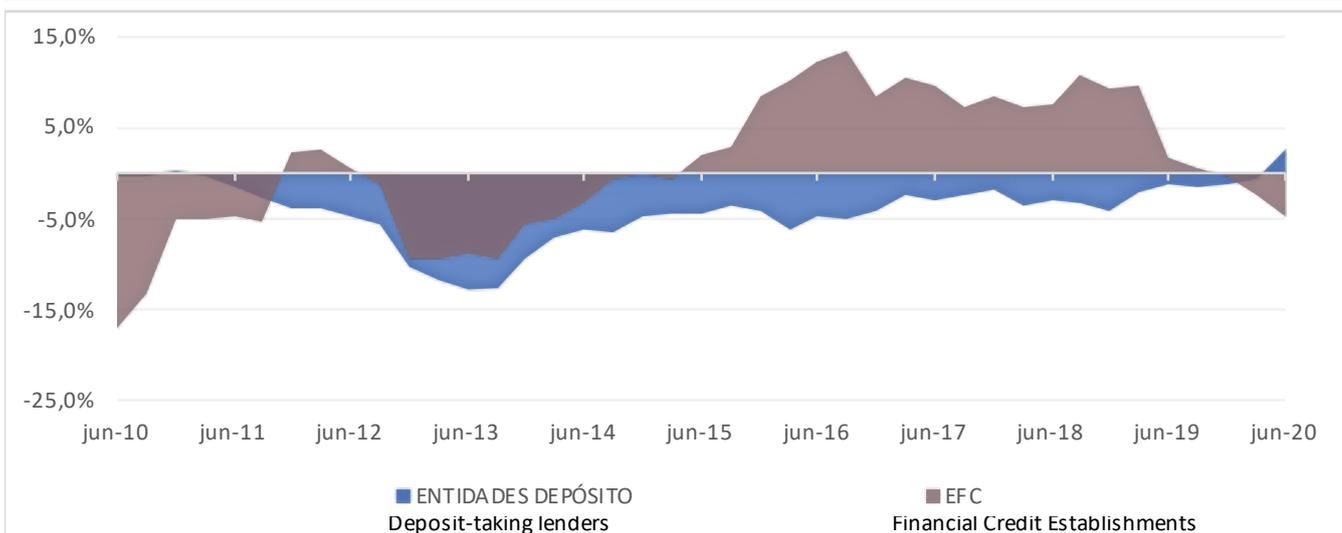
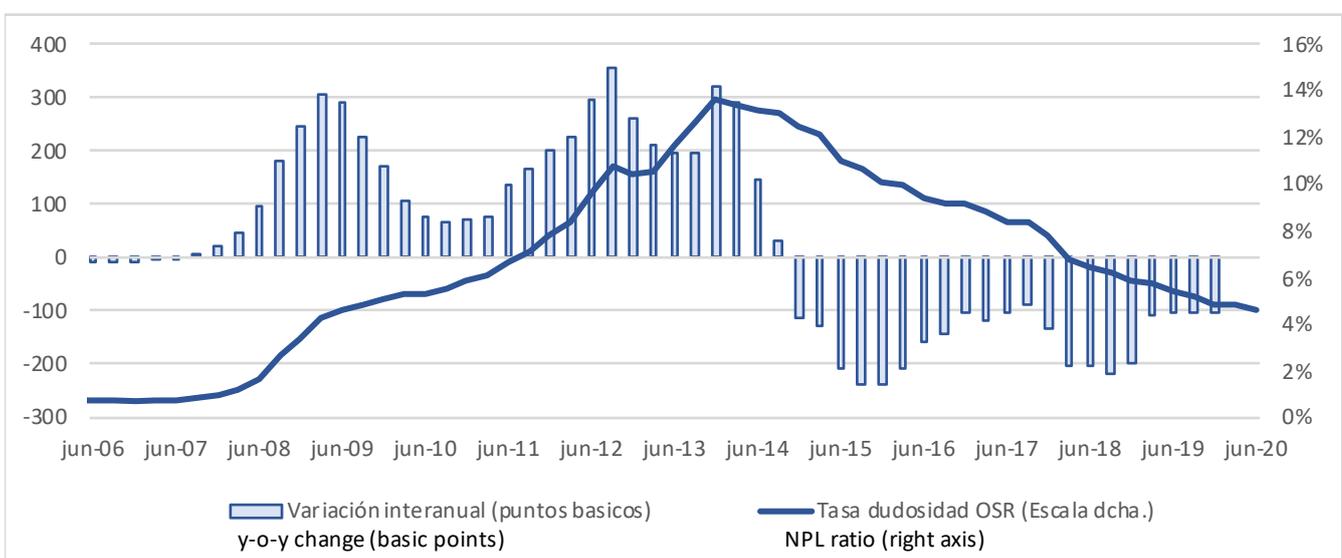
Another of the key elements of financing for institutions, i.e. deposits from the resident private sector, continue to gain momentum and remain an alternative in the face of possible contingencies arising from a situation of adversity such as the current one, growing by 6.8% this second quarter compared to 3.4% or 4.6% in the immediately previous quarters.

In the coming months, we are likely to see an overall downward adjustment in the portfolio balances, as a scenario of uncertainty still prevails, aggravated by the second wave of the coronavirus that has dotted much of our territory and seems to be spreading to other European territories as well. Until the conditions for a firm recovery of the economy are not in place, we will continue to witness a context of poor prospects in both internal and external demand, with its corresponding impact upon lending activity.

MORTGAGE CREDIT ACTIVITY FOR THE RESIDENT PRIVATE SECTOR

SPANISH BUSINESS

	Outstanding lending <i>Million EUR</i>			Ratio OSR outstanding credit /GDP		NPL ratio	
	jun-19	jun-20	T ₁₂	jun-19	jun-20	jun-19	jun-20
Credit to the Resident Private Sector (Known in Spanish as SPR/OSR)	1.214.790	1.241.445	2,2%	99,0%	105,9%	5,4%	4,7%
Deposit-taking lenders	1.158.792	1.187.023	2,4%	94,5%	101,3%	5,3%	4,6%
Other credit Institutions	7.307	8.036	10,0%	0,6%	0,7%	5,4%	3,2%
Financial Credit Establishments	48.691	46.386	-4,7%	4,0%	4,0%	5,6%	6,9%

Chart 1: y-o-y change in total outstanding lending (OSR)

Chart 2: NPLs in OSR credit


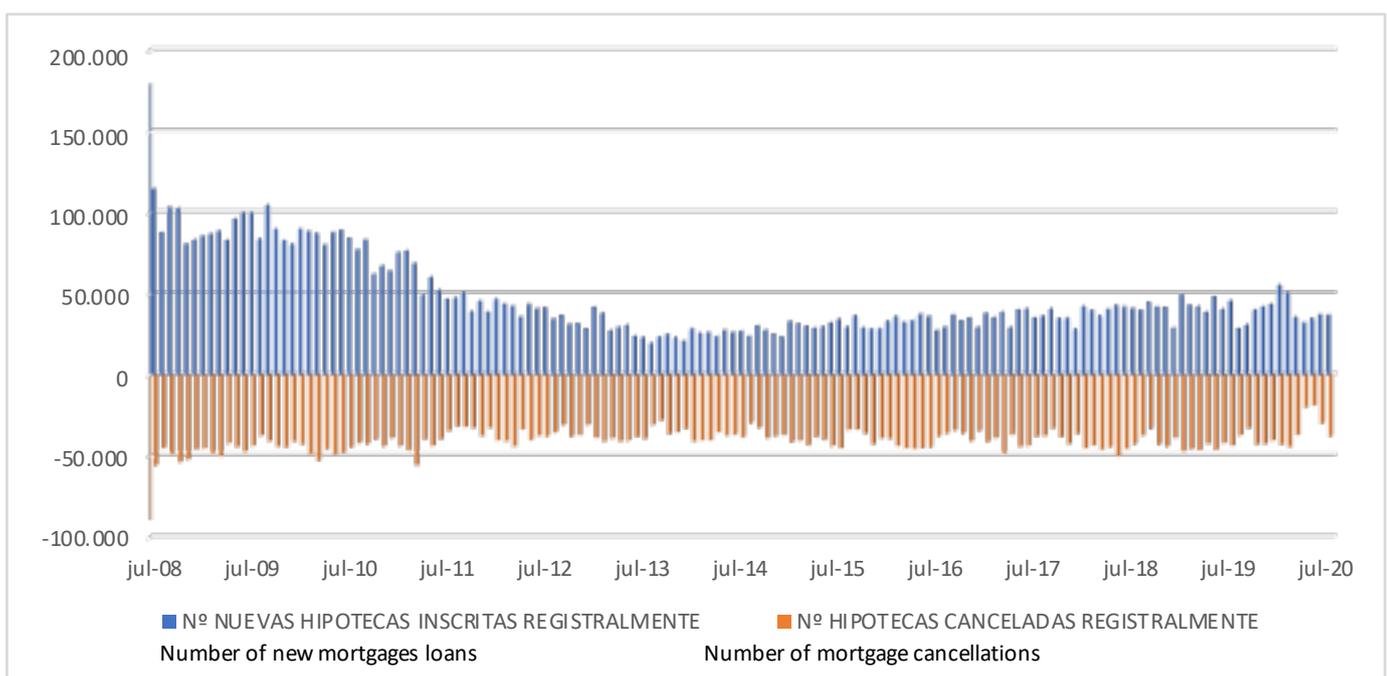
MORTGAGE CREDIT ACTIVITY FOR THE RESIDENT PRIVATE SECTOR

SPANISH BUSINESS

	Outstanding lending <i>Million EUR</i>		y-o-y change		Ratio outstanding mortgage activity/ total outstanding lending (OSR)	Ratio outstanding residential mortgage lending/ total outstanding lending OSR
	jun-19	jun-20	In absolute terms	In relative terms		
Outstanding mortgage lending to OSR with real estate collateral						
Credit Institutions	654.593	637.780	-16.813	-2,6%	53,7%	74,1%
Banks and Saving Banks	595.431	578.764	-16.667	-2,8%	-	-
Credit Cooperatives	59.162	59.016	-146	-0,2%	-	-

	Outstanding lending <i>Million EUR</i>		y-o-y change		Eligible asset portfolio / mortgage portfolio	CHs/cartera elegible
	jun-19	jun-20	In absolute terms	In relative terms		
Eligible assets portfolio						
Credit Institutions	405.109	398.067	-7.041	-1,7%	62,4%	57,6%
Banks and Saving Banks	375.880	368.761	-7.119	-1,9%	63,7%	59,1%
Credit Cooperatives	29.229	29.306	78	0,3%	49,7%	38,6%

Chart 3: Mortgage portfolio y-o-y change



DETAIL OF FUNDING MECHANISMS
SPANISH BUSINESS

OUTSTANDING MORTGAGE SECURITIES	Outstanding lending Million EUR		y-o-y change		MARKET SHARE OVER TOTAL ISSUANCE	MORTGAGE SECURITIES/MORTGAGE LENDING (OUTSTANDING)
	jun-19	jun-20	In absolute terms	In relative terms		
Credit Institutions	315.572	324.114	8.541	2,7%	100,0%	50,8%
Banks and Saving Banks	299.145	306.519	7.374	2,5%	94,6%	53,0%
Credit Cooperatives	16.428	17.595	1.168	7,1%	5,4%	29,8%

BREAKDOWN BY FUNDING INSTRUMENT - OUTSTANDING LOANS

Spanish Covered Bonds (CBs)	Outstanding lending Million EUR		y-o-y change		WEIGHT MORTGAGE SECURITIES	WEIGHT MORTGAGE SECURITIES OVER MORTGAGE CREDIT
	jun-19	jun-20	In absolute terms	In relative terms		
Credit Institutions	215.045	229.415	14.370	6,7%	70,8%	36,0%
Banks and Saving Banks	204.972	218.117	13.145	6,4%	71,2%	37,7%
Credit Cooperatives	10.073	11.298	1.225	12,2%	64,2%	19,1%
Mortgage Participations (known in Spain as Participaciones Hipotecarias (PH)) *	Outstanding lending Million EUR		y-o-y change		CHs/MORTGAGE SECURITIES	CHs/OUTSTANDING MORTGAGE LENDING
	jun-19	jun-20	In absolute terms	In relative terms		
Credit Institutions	16.433	13.587	-2.846	-17,3%	4,2%	2,1%
Banks and Saving Banks	14.412	11.544	-2.868	-19,9%	3,8%	2,0%
Credit Cooperatives	2.021	2.043	21	1,1%	11,6%	3,5%
Mortgage Certifications (known in Spain as Certificados de Transmisión Hipotecaria (CTH)) **	Outstanding lending Million EUR		y-o-y change		CTHs/MORTGAGE SECURITIES	CTHs/OUTSTANDING MORTGAGE LENDING
	jun-19	jun-20	In absolute terms	In relative terms		
Credit Institutions	84.094	81.112	-2.983	-3,5%	25,0%	12,7%
Banks and Saving Banks	79.761	76.857	-2.904	-3,6%	25,1%	13,3%
Credit Cooperatives	4.334	4.255	-79	-1,8%	24,2%	7,2%

* It refers to those Mortgage Backed Securities that meet the requirements set out in Section II Law 2/1981, on the balance sheets of credit institutions.

** It refers to those Mortgage Backed Securities that do not meet the requirements set out in Section II Law 2/1981, on the balance sheets of credit institutions.

SAVING DEPOSITS RESIDENT PRIVATE SECTOR (OSR)	Outstanding lending Million EUR		y-o-y change		Loan to Deposit Ratio (LTD) OSR CREDIT	LTD MORTGAGE CREDIT
	jun-19	jun-20	In absolute terms	In relative terms		
Credit Institutions	1.212.749	1.295.554	82.805	6,8%	95,8%	49,2%
Banks and Saving Banks	-	-	-	-	-	-
Credit Cooperatives	-	-	-	-	-	-