A report by the Spanish Mortgage Association

JULY 2018

Analysing the Spanish mortgage pool Q1 2018

www.ahe.es

Asociación Hipotecaria Española

Table of contents

Asociación Hipotecaria Española

Analysing the Spanish mortgage pool

July 2018

1. Preliminary comments

This report presents an update of the data and analysis published by the Spanish Mortgage Association (AHE) in November 2017 (which contained data up to June 2017). The aim of this report is to provide with stakeholders an outlook of the composition and of the main features of Spanish credit institutions' total mortgage pool.

The figures analysed comprise data from 13 credit institutions[1] that issue covered bonds (*cédulas hipotecarias*) with a Covered Bond Label[2] by the European Covered Bond Council (ECBC).

The data were gathered from the information published by each institution on their corporate websites relating to the cover pool backing their covered bond issues. As a member of the ECBC, the Spanish Mortgage Association manages part of the publication process of this information as well as the definition of different concepts. Thus, all the variables presented in this analysis are subject to a homogeneous definition.

This short assessment offers interesting information on the Spanish mortgage pool profile, which can be useful for further analysis and decision making. Its content may be quoted and reproduced with specific reference to the Spanish Mortgage Association.

[1] *Banco Sabadell, Bankia, Caixabank, Banco Santander, Kutxabank, Unicaja Banco, Banco Popular, BBVA, Bankinter, Ibercaja Banco, Eurocaja Rural-Caja Rural Castilla-La Mancha, Caja Rural de Navarra and Abanca.*
[2] *https://coveredbondlabel.com/*

2. Fundamental data of the cover pool

As of March 2018, the mortgage pool under analysis[3], which represents around 90% of the total national outstanding mortgage lending[4] - not including on-balance and off-balance residential mortgage backed securities RMBS-, has decreased down to EUR 468,786 million (compared to EUR 478,756 million in June 2017 – report published in November 2017-). This is a result of the deleveraging process accomplished by the Spanish financial system.

Nevertheless, this drop is not reflected in the number of loans, which in March 2018 accounted for **5,382,474** (compared to 5,317,811 outstanding loans reported in November 2017).

In March 2018, the weighted average of the total pool was EUR 90,415, where the average loan size for residential collateral, which represents approximately 78% of the outstanding pool, was EUR 74,455, while the commercial collateral average value was EUR 212,343.

On its part, the LTV ratio remained constant, at 57.4%.

Table 1

Basic Data	
National Outstanding Loans (*) (**) (mill €)	520,319
Mortgage Pool (mill €)	468,786
Mortgage Pool/Outstanding	90.1%
Number of Loans	5,382,474
Average Loan Size (€)	90,415
Average Residential (€)	74,455
Average Commercial (€)	212,343
Weighted Average Life (years)	14.70
Average LTV	57.4%
Residential Collateral	78.1%
Commercial Collateral	21.9%

(*) Not including RMBs

(**) Latest available data March 2017

Source: AHE

[3] *The data analysed is dated to March 2018 except for 1 institution (which represent 6.6 % of the cover pool) with data as of December 2017.*

[4] *The outstanding value is dated to March 2017 since it is the latest available.*

3. Property type information

As mentioned above, approx. 78.1% of the analysed pool was backed by residential properties[5], while the remaining 21.9% was backed by commercial lending [6].

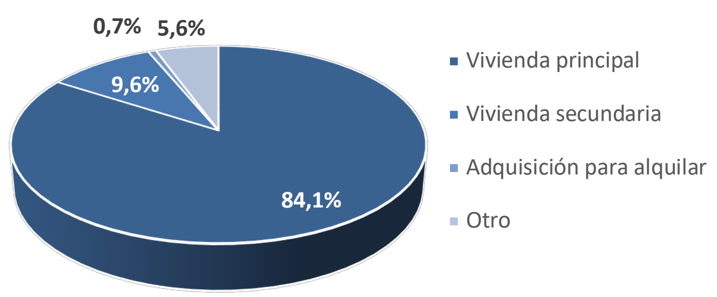
Table 2

Tipo de colateral	
Residential	78.1%
Maximum in pool	86.7%
Minimum in pool	59.2%
Commercial	21.9%
Maximum in pool	40.8%
Minimum in pool	13.3%

Source: AHE

Within the residential segment, 84.1% of housing loans were guaranteed by primary residence; 9.6% by second or vacation homes and 0.7% by other properties, purchased for investment purposes. The remaining 5.6% of the pool corresponded to residential properties of a different nature.

Chart 1: Residential property composition



Source: AHE

On its part, the vast majority of residential loans, namely 97%, were first mortgages and slightly less than 3% corresponded to any other second mortgages.

---

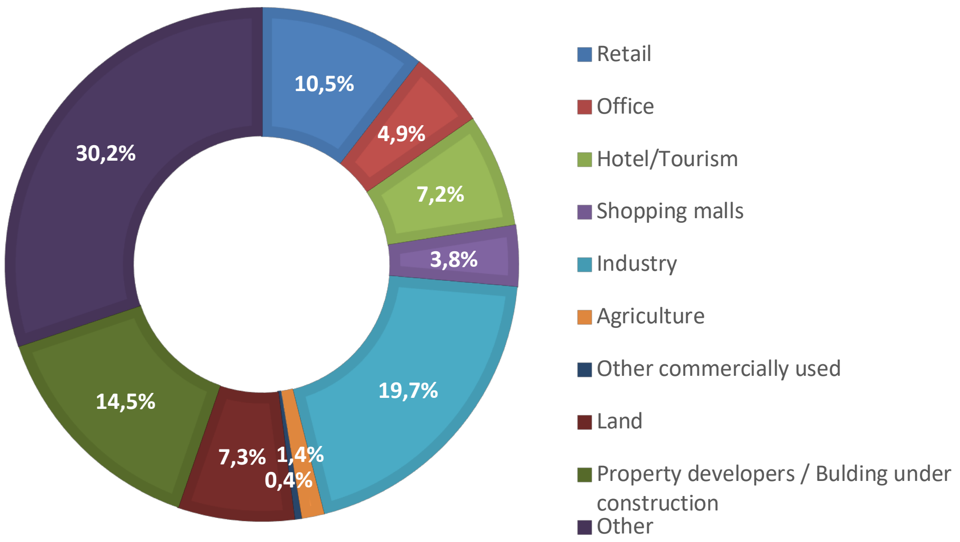
[5] *Residential loans meet the following criteria: loans that are full recourse to the individual taking out the loan; and either (a) loans secured against a residential property in which the borrower resides or b) where the borrower rents out less than four properties.*

[6] *Commercial loans are loans backed by a mortgage and which have recourse to a borrower excluding individuals and public-sector entities.*

Regarding the commercial lending, the industrial sector (19.7%) remained virtually unchanged since the latest report published in November 2017, although its share is bigger compared to previous years, probably due to the evolution of the e-commerce. Lending for land and for property development or buildings under construction purposes was 7.3% and 14.5% of this segment's total volume, respectively, decreasing 2.5 pp compared to June 2017. The banking sector, following the recommendations from the European Authorities and Supervisors, continued reducing its exposure to the real estate sector.

Retail sector accounted also for an important share of the pool, 10.5% of the total portfolio, followed by the hotel and tourism sector, which accounted for 7.2% of the total. The remaining corresponded to offices (4.9%); shopping malls (3.8%), agriculture (1.4%) and other purposes (30.6%).

Chart 2: Commercial property composition



Source: Spanish Mortgage Association

4. Loan to Value Ratio (LTV)

Based on the available data of 12 institutions -which account for approximately 85% of the sample- the weighted distribution of pool's LTV in terms of unindexed LTV buckets showed that the LTV of around 86.4% of the sample is up to 80%, while the remaining 13.6% corresponded to mortgage loans with a LTV above the 80% threshold.

Table 3

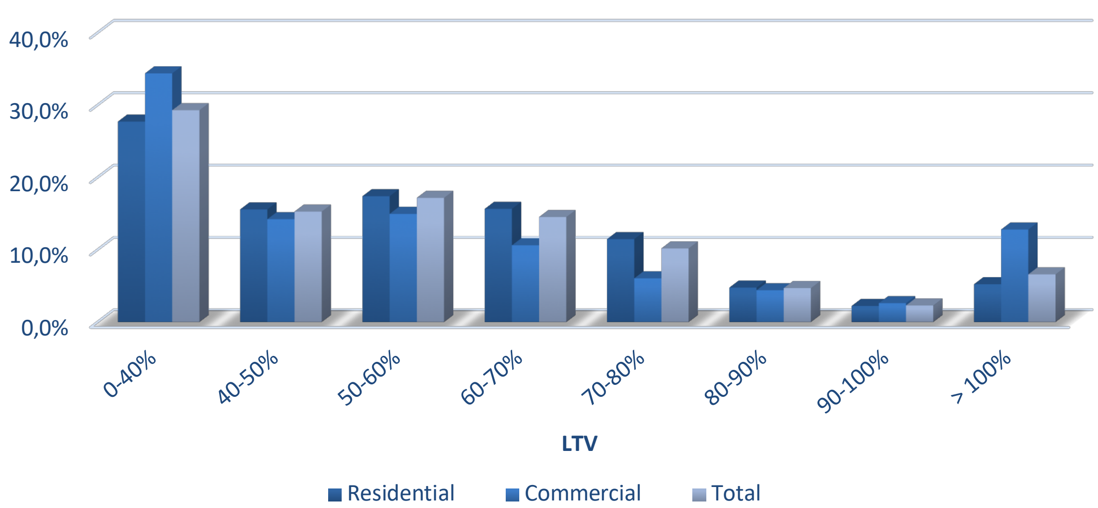
LTV ratio distribution			
LTV	**Total**	**Residential**	**Commercial**
0-40%	29,3%	27,7%	34,4%
40-50%	15,3%	15,6%	14,2%
50-60%	17,2%	17,4%	15,0%
60-70%	14,5%	15,6%	10,6%
70-80%	10,2%	11,5%	6,0%
80-90%	4,7%	4,8%	4,4%
90-100%	2,3%	2,2%	2,6%
> 100%	6,6%	5,2%	12,8%

Source: Spanish Mortgage Association

The breakdown within the residential pool is similar due to the significant weight of the activity in the total pool. Loans with a LTV above 80% accounted for 12.2%, while in the commercial segment was 19.8%, even when lending for commercial purposes is more restrained. This may reveal big falls in the appraisal value of those properties backing the loans in the commercial pool. Thus, while the average LTV for residential properties was 56.5%, for commercial properties it was 61.9%.

By comparison, the LTV ratio of the outstanding residential mortgage pool was significantly lower than the LTV of gross mortgage lending for house purchase, which in March 2018 was 60.5% according to the data provided by the Bank of Spain.

Chart 3: LTV residential and commercial distribution



Source: Spanish Mortgage Association

5. Loan size

In this section, it is depicted the pool's breakdown in terms of the outstanding loan amount for a sample slightly higher tan 93% of the pool under analysis.

Table 4

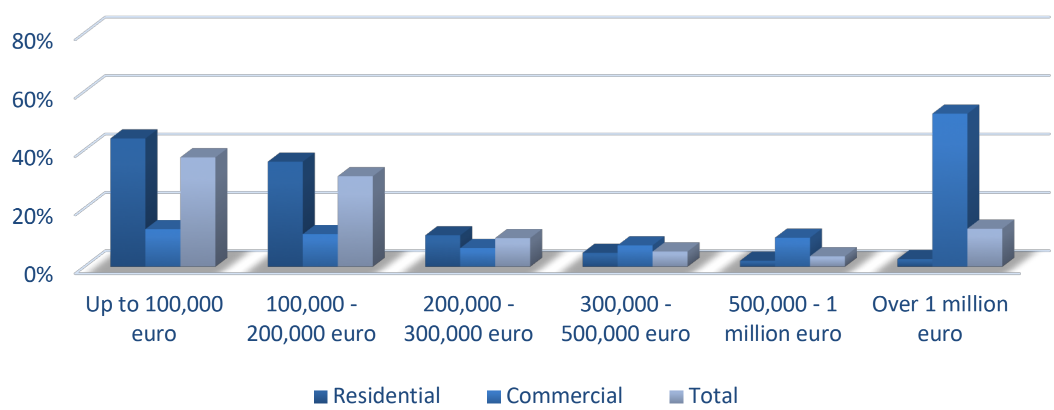
Loan size (outstanding lending)			
Interval	**Total**	**Residential**	**Commercial**
Up to 100,000 euro	37,4%	43,9%	12,9%
100,000 - 200,000 euro	31,0%	36,0%	11,1%
200,000 - 300,000 euro	9,8%	10,7%	6,4%
300,000 - 500,000 euro	5,2%	4,8%	7,3%
500,000 - 1 million euro	3,6%	2,0%	9,9%
Over 1 million euro	13,0%	2,6%	52,4%

Source: Spanish Mortgage Association

When considering the outstanding amounts in the whole pool, the vast majority of the principals did not exceed EUR 200,000 (68.4% of the total). For the residential segment, this percentage was 79.9% due to the type of guarantee backing the residential market, although the LTV ratio is normally higher for these transactions than in commercial ones, representing the latter only 24.0% for the tranche under EUR 200,000.

Furthermore, 13% of the pool corresponded to loans granted by amounts higher than EUR 1 million, where 2.6% corresponded to residential segment and 52.4% to the commercial one.

Chart 4: Loan amount distribution (oustanting lending)



Source: Spanish Mortgage Associarion

To provide a better representativeness of the sample, averages not considering the size of the loan for each of the tranches have been considered.

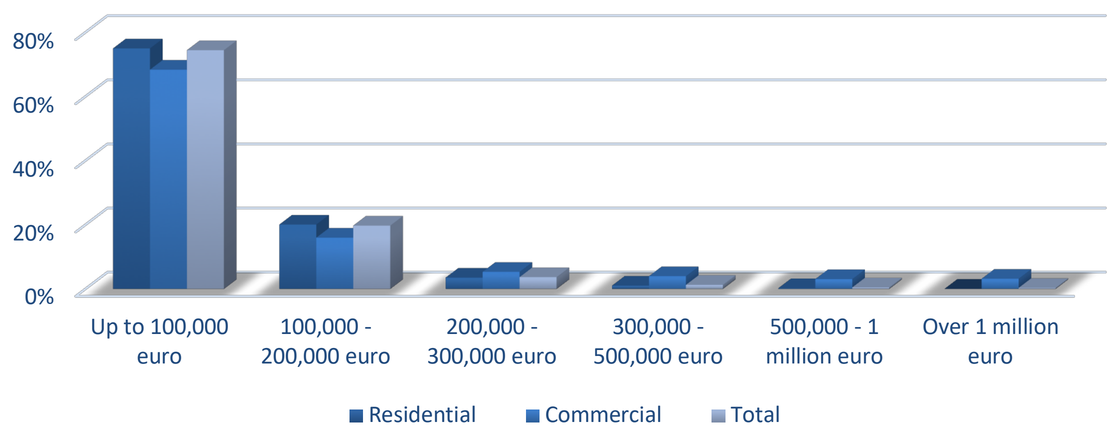
Table 5

Breackdown by loan amount (mortgage units)			
Interval	**Total**	**Residential**	**Commercial**
Up to 100,000 euro	74,5%	75,0%	68,4%
100,000 - 200,000 euro	19,8%	20,1%	16,0%
200,000 - 300,000 euro	3,7%	3,5%	5,3%
300,000 - 500,000 euro	1,3%	1,0%	4,0%
500,000 - 1 million euro	0,5%	0,2%	3,1%
Over 1 million euro	0,3%	0,1%	3,2%

Source: Spanish Mortgage Association

Thus, based on the number of loans regardless their size, it was observed that the residential mortgage pool was composed mainly (95.1%) by loans with outstanding amounts under EUR 200,000. In terms of commercial lending, although the vast majority corresponded also to the tranche up to EUR 200,000 (84.4%), the remaining is in sharp contrast with the residential pool, where loans with outstanding amounts over EUR 200,000 represented 15.6% (4.8% for residential loans).

Chart 5: Loan amount distribution (mortgage units)



Source: Spanish Mortgage Associarion

From the entire pool, the 10 largest exposures represented 2.1% of the total outstanding. This results from weighing the value of the residential pool -where this proportion was 0.4%-, and the value of the commercial pool -where the same rate was 9.0%-.

6. Loan Seasoning

In this section it is analysed the distribution of the mortgage portfolio based on the loan seasoning, for a sample representing over 93% of the total volume of entities in the analysed pool. The aggregate of the pool showed a breakdown similar to the analysis presented in the publication of November 2017, representing 69.6% of the volume of loans that have been in the balance for more than 5 years and distributed evenly on 30.4% among the rest of the other tranches below the 5-year threshold.

Table 6

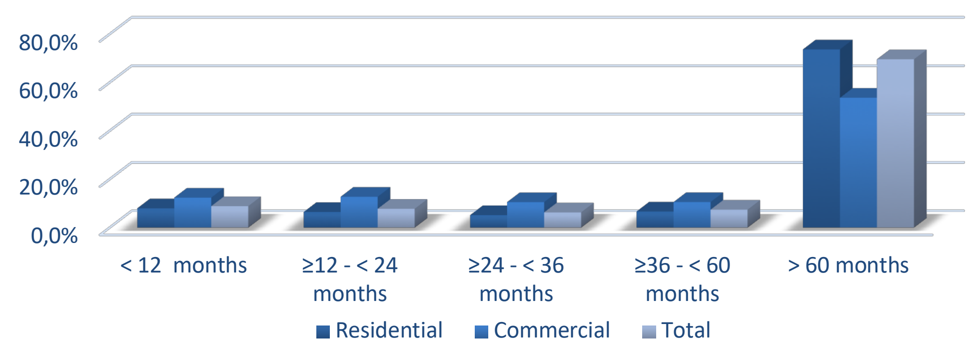
Loan seasoning			
Antigüedad	**Total**	**Residential**	**Commercial**
< 12 months	8,9%	8,0%	12,4%
≥12 - < 24 months	7,8%	6,5%	12,8%
≥24 - < 36 months	6,3%	5,2%	10,6%
≥36 - < 60 months	7,4%	6,7%	10,6%
> 60 months	69,6%	73,7%	53,7%

Source: Spanish Mortgage Association

Regarding residential segment, the volume of loans with a seasoning equal to or greater than 5 years represented 73.7%. In the remaining 26.3% of the last 5 years, we see the increasing influence of the new origination, highlighting that 8.0% residential corresponded to the last 12 months, compared to 6.7% corresponding to 2 years of activity (3.35% annual) produced in the seasoning period of 3 to 5 years.

A slight upward trend was also observed in the new origination of the commercial segment, although it was weaker than for residential.

Chart 6: Loan seasoning



Source: Spanish Mortgage Association

7. Amortisation profile

The average amortisation period compared to the analysis published in November 2017 showed a notable decrease, from 17.81 years in June 2017 to 14.70 years registered in the first quarter of 2018. This important anomalous variation in the term of the loan may be due to the sale of large portfolios, where especially the loans with the longest amortisation periods compared to the current ones would be affected.

Table 7

Amortisation profile	
0 - 1 years	4,2%
1 - 2 years	2,6%
2 - 3 years	2,7%
3 - 4 years	3,0%
4 - 5 years	3,1%
5 - 10 years	17,7%
10+ years	66,8%
Average maturity (years)	14,70

Source: Spanish Mortgage Association

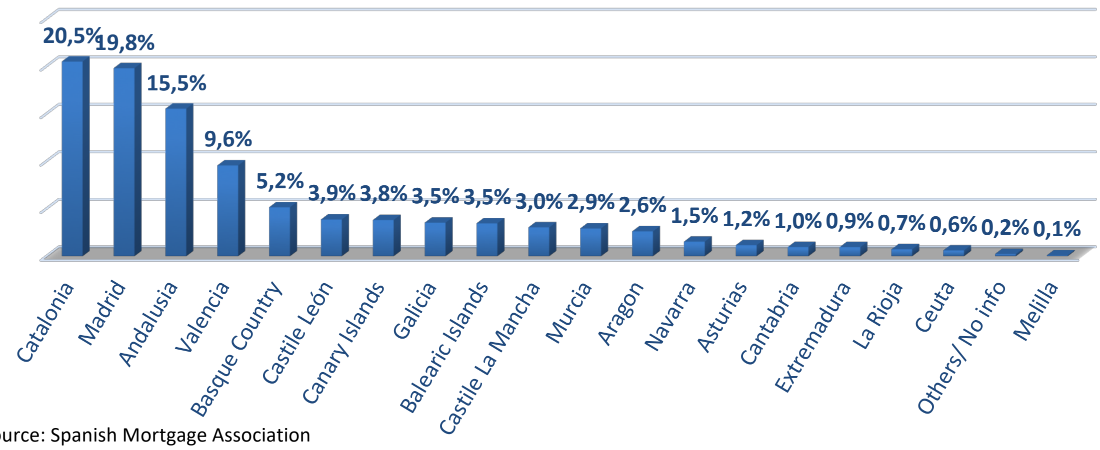
The outstanding proportions for the different maturity periods did not present great variations. 15.5% of the outstanding pool is expected to be amortised over the next 5 years and 17.7% to do so within the next 5 to 10 years, leaving 66.8% of the total with a maturity term over 10 years.

8. Geographic distribution

The profile of the pool in terms of the location of the underlying assets was similar to the one observed in recent years. Catalunya leads the rank with 20.5% of the properties; followed by Madrid (29.8%); Andalusia (15.5%) and the Valencian Community (9.6%).

The remaining sample does not exceed 6% at Autonomous Region level, highlighting the Basque Country (5.2%); Castile-Leon (3.9%), Galicia (3.5%) and the Balearic Islands (3.5%).

Chart 7: Cover pool interest rate distribution



Source: Spanish Mortgage Association

9. Interest rates

Table 8 below shows the distribution of the mortgage pool in terms of the loans' interest rates.

Table 8

Interest rate market share		
	Residential	**Commercial**
Variable rate	8,5%	12,7%
Fixed rate	91,5%	87,3%

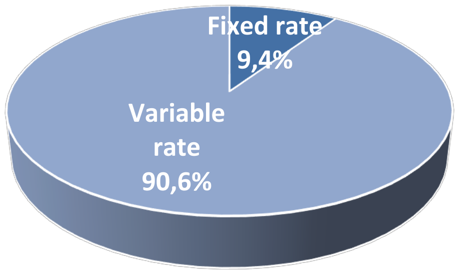
Source: Spanish Mortgage Association

While the commercial pool showed no variation with respect to the analysis published in November 2017, with 12.7% of loans at a fixed rate[7] and 87.3% at a variable rate[8] . As regards residential pool, loans at fixed rates represented 8.5% as of March 2018, compared to 7.0% shown in the analysis published in November 2017 based upon the favourable acceptance of fixed rates in the new lending.

[7] *Loans with an interest rate up to 1 year of initial rate fixation.*

[8] *Loans with an interest rate over 1 year of initial rate fixation.*

Chart 8: Cover pool interest rate distribution



Source: Spanish Mortgage Association

10. Further data

The weighted ratio of Non-performing loans (NPL)[9] continued the downward trend anticipated in the analysis published in November 2017, from 8.2% to 6.4%. Nevertheless, despite the good performance of the economic fundamentals is favouring the financial stability, part of this drop is directly linked to the writing down of problematic assets set about by financial institutions. The NPL rate for the residential segment was 4.2%, compared to 5.2% registered in June 2017 (i.e.: 19% drop). As regards commercial segment, the decrease is sharper, from 18.0% to 13.8% in March 2018 (i.e.: 23% drop).

Finally, regarding the amortisation system, 96.3% of the total mortgage pool used the French system and 3.7% bullet or interest-only systems or any other system different from the aforementioned. By type of collateral, 99.0% of the residential pool was prepaid following the French system, while in the commercial pool was 88.6% and the remaining pool (11.4%) followed a bullet system or a different from the aforementioned.

[9] *Past due installments over 90 days, considering the total loan amount.*