Asociación Hipotecaria Española

A report by the Spanish Mortgage Association
SEPTEMBER 2019

www.ahe.es

Analysing the Spanish Mortgage Pool

First semester 2019

Asociación Hipotecaria Española

Table of Contents

Analysing the Spanish Mortgage Pool

September 2019

1. Preliminary Comments

This report presents an update of the data and analysis published by the Spanish Mortgage Association (AHE) in March 2019 (which contained data up to December 2018). The aim of this report is to provide stakeholders with an outlook of the composition and the main features of the Spanish credit institutions' total mortgage pool.

The analysis comprises 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 are gathered from the information on the cover pool backing covered bond issuances that is available on the corporate websites of each credit institution. As a member of the ECBC, the Spanish Mortgage Association coordinates 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 an homogeneous definition.

This short assessment offers 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, BBVA, Bankinter, Ibercaja Banco, Eurocaja Rural-Caja Rural Castilla-La Mancha, Caja Rural de Navarra, Abanca and Grupo Cooperativo Cajamar.*

[2] *https://coveredbondlabel.com/*

2. Fundamental Data of the Cover Pool

The analysed mortgage pool[3], which represents approximately 86% of the national outstanding mortgage lending[4] (not including on-balance and off-balance residential mortgage backed securities, RMBS), experienced a marginal 0,2% uptick, from EUR 478,946 million in December 2018 up to EUR 479,731 million in June 2019.

In parallel, in the first half of 2019, the number of outstanding loans in the mortgage portfolio amounted to 5,750,172 mortgages, an increase of 0.4% compared to the previous semester.

Meanwhile, the average amount of the portfolio decreased slightly to EUR 85,943. Due to the peculiar nature of the collateral, the average loan size in the residential portfolio (EUR 74,104) was significantly lower than in the commercial portfolio (nearly triple, reaching EUR 211,600).

On the other hand, the LTV ratio remains at stable levels, around 58.3% of the aggregated portfolio. According to data from the Bank of Spain, the average LTV for new mortgage loans is around 65.5%.

Table 1

Mortgage Portfolio Basic Data	
National Outstanding Loans (*) (**) (mill €)	555,135
HTT Mortgage Pool (mill €)	479,731
Mortgage pool/ Outstanding	86.4%
Number of Loans	5,750,172
Average Mortgage Loan (€)	85,943
Average Residential (€)	74,104
Average commercial (€)	211,600
Weighted average life (years)	14.55
Weighted average LTV	58.3%
Residential Collateral	79.2%
Commercial Collateral	20.8%

(*) Not including MBSs

(**) Latest available data December 2018

Source: own elaboration from ECBC Label data

[3] *Dated to June 2019 for the sample as a whole.*

[4] *The outstanding value is dated to December 2018 since it is the latest available.*

3. Property Type Information

According to the type of loan, 79.2% of the total outstanding was backed by residential properties[5], while the remaining 20.8% corresponded to commercial properties[6]. Meanwhile, considering the total number of outstanding loans, 91.2% corresponded to residential lending and 8.8% to commercial lending.

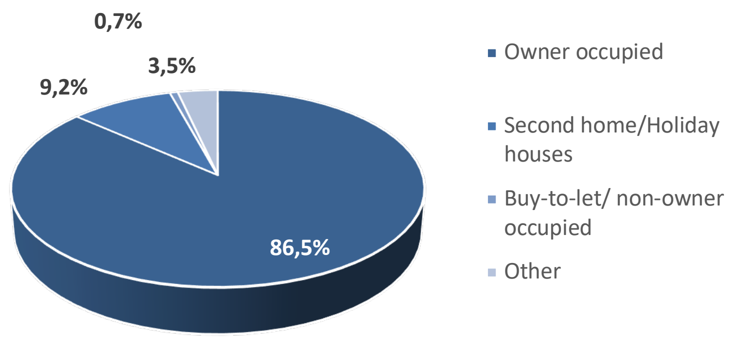
Table 2

Type of collateral	
Residential	79.2%
Maximum in portfolio	89.2%
Minimum in portfolio	55.9%
Commercial	20.8%
Maximum in portfolio	44.1%
Minimum in portfolio	10.8%

Source: own elaboration from ECBC Label data

Within the residential portfolio, lending for the acquisition of the main residence continued a smooth upward trend, reaching 86.5% share, while lending for second home purchase accounted for 9.2% of the total portfolio. Furthermore, 3.5% of the residential portfolio was backed by residential property for a purpose of use other than the abovementioned, and only 0.7% of the portfolio for purchase of properties as investment, a reflection of the lending policies aimed at improving the quality of the risk adopted by credit institutions.

Chart 1: Residential Collateral Breakdown



Source: own elaboration from ECBC Label data

[5] *Residential loans meet the following criteria: loans with 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.*

Considering the mortgage rank of the portfolio, about 97.4% are first rank loans, with no other mortgages on the same property, and 2.6% of the mortgage balance corresponds to second or subsequent mortgages, with other liens.

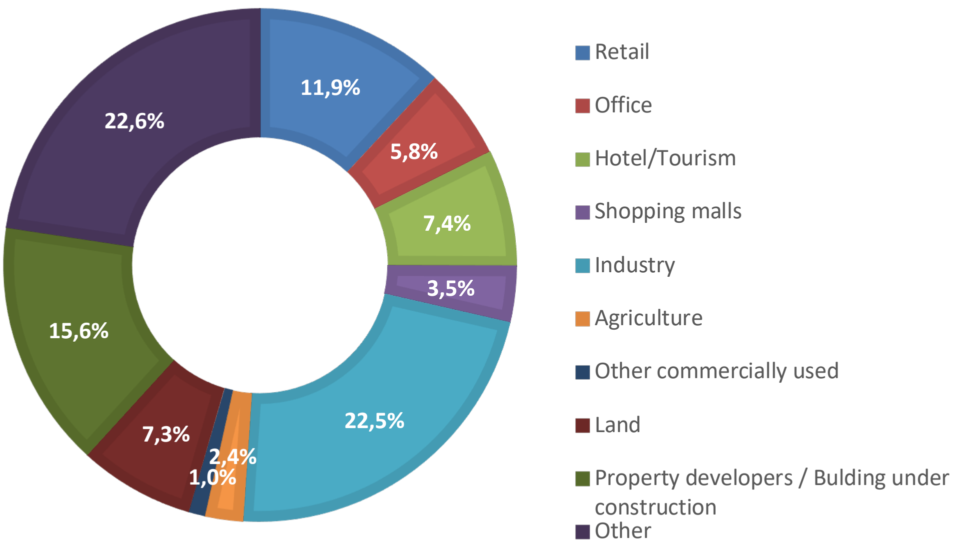
Table 3

Residential Collateral by ranking	
First lien/No prior ranks	97.4%
Second mortgage	2.4%
Other	0.1%

Source: own elaboration from ECBC Label data

For its part, in the commercial portfolio, some dynamism in the retail activity has been observed over the last three years. This sector accounted for almost 12% of the portfolio as of June 2019, compared to 10.6% observed in the previous year. The tertiary sector accounted for 5.8% compared to 4.5% just one year ago. The hotel and catering sector increased by more than 2 percentage points (pps), from 5.1% in June 2018 to 7.4% in June this year. And finally, the industrial sector increased its exposure by more than 2 pps, up to 22.5%. Lending for land purchase and property development accounted for almost 23% of the portfolio, after some years in a row with banks reducing their exposure to these assets.

Chart 2: Commercial Collateral Breakdown



Source: own elaboration from ECBC Label data

4. Loan-to-Value ratio (LTV)

Based on the available data of 12 institutions -which account for approximately 86% of the sample- the weighted average distribution of the pool's LTV in terms of unindexed LTV buckets showed that the percentage of loans with an LTV below 80% remained at levels similar to those observed in previous analyses. In particular, as of June 2019, the volume of outstanding loans with a LTV under 80% rose up to 86.7%, while the remaining 13.3% was above that threshold. Of the latter tranche, about 7% of the balance corresponded to loans with an outstanding debt above the appraisal value of the guarantee.

Table 4

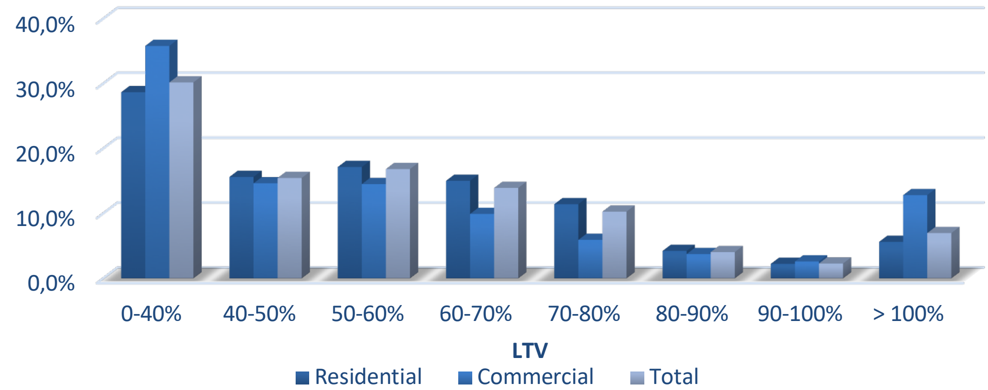
LTV ratio disribution			
LTV	**Total**	**Residential**	**Commercial**
0-40%	30.2%	28.7%	35.8%
40-50%	15.5%	15.6%	14.6%
50-60%	16.8%	17.2%	14.5%
60-70%	13.9%	15.0%	9.9%
70-80%	10.3%	11.4%	5.9%
80-90%	4.0%	4.2%	3.7%
90-100%	2.3%	2.2%	2.6%
> 100%	7.0%	5.6%	12.8%

Source: own elaboration from ECBC Label data

Within the residential pool, loans with an average LTV ratio below 80% represented 87.9%, compared to commercial collateral, where the same index was 80.8%. In general terms, credit institutions' financing policies tend to be more prudent offering lower LTVs when the collateral is not the residential guarantee and, especially, when the credit is not for house purchase. However, we can see that in this mapping exercise the non-residential portfolio had a higher loan share with LTV >80% (19.2%) than the registered in the residential portfolio (12.1%). From this anomalous situation, it could be inferred that low-quality collaterals still have some effects on the non-residential portfolio, with appraisal values subject to significant variations or refinancing operations granted in due course without additional collateral.

Regarding the weighted average LTV, the residential portfolio stood at 56.6%, ranging from 50.3% minimum to 63.0% maximum. In the commercial portfolio, however, this coefficient amounted to 65.0%, showing the sample values a greater dispersion, with a maximum of 82.0% and a minimum of 45.9%.

Chart 3: Residential and Commercial LTV distribution



Source: own elaboration from ECBC Label data

5. Distribution of Loans by Size

Considering the composition of the portfolio according to the tranches of outstanding capital, for a sample representing about 97% of the total portfolio analysed, it is observed that the percentage distribution remains virtually unchanged compared to the latest analyses.

Starting by looking at the weight of the aggregate portfolio for each of the tranches according to the loan amount, it is observed that approximately 69% of the balance corresponded to the principal under EUR 200,000 tranche, 19% is composed by loans between EUR 200,000 and one million euros, and 13% share corresponds to the tranche of loans of more than one million euros.

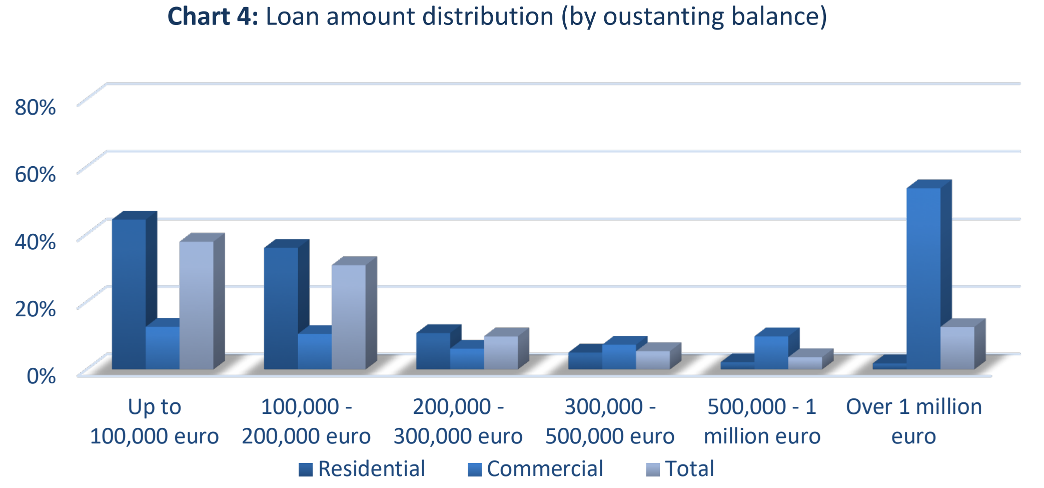
Table 5

Weighted average distribution by credit institution (loan amount vs. outstanding balance)			
Buckets	**Total**	**Residential**	**Commercial**
Of which up to 100,000 euros	37.8%	44.4%	12.6%
Of which between 100,000 and 200,000 euros	30.8%	36.0%	10.5%
Of which between 200,000 and 300,000 euros	9.8%	10.8%	6.2%
Of which between 300,000 and 500,000 euros	5.4%	5.0%	7.3%
Of which between 500,000 and 1,000,000 euros	3.6%	2.1%	9.8%
Of which more than 1,000,000 euros	12.6%	1.8%	53.6%

Source: own elaboration from ECBC Label data

When analysing the portfolio breakdown by market segments, there are notable differences in the redistribution of shares between the residential and non-residential portfolio. Thus, in the residential segment, for loans with principal under EUR 200,000, the percentage of outstanding balance exceeded 80%, being residual, in some way, the value of loans with capital over one million (which barely reaches 2%).

Meanwhile, in the commercial segment, only 23% is in the tranche up to 200,000 euros, with 54% share for the volume of loans amounting more than one million euros, and 23% for those between 200,000 and one million euros.



Source: own elaboration from ECBC Label data

As in previous reports, in order to contribute to the analysis and interpretation of the data, we have also used weighted averages, not considering the principal of the loan allocated to each tranche but counting only the loan as a unit.

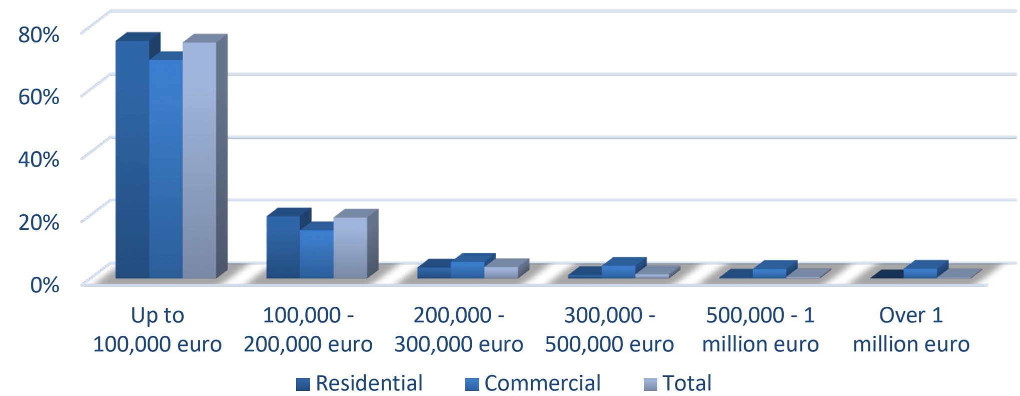
Table 6

Weighted average distribution by credit institution (loan amount vs. mortgage units)			
Buckets	**Total**	**Residential**	**Commercial**
Of which up to Up to 100,000 euros	74.9%	75.4%	69.3%
Of which between 100,000 and 200,000 euros	19.3%	19.7%	15.3%
Of which between 200,000 and 300,000 euros	3.6%	3.5%	5.3%
Of which between 300,000 and 500,000 euros	1.3%	1.1%	4.0%
Of which between 500,000 and 1,000,000 euros	0.5%	0.3%	3.0%
Of which more than 1,000,000 euros	0.3%	0.1%	3.1%

Source: own elaboration from ECBC Label data

Under this approach, interpretation of the data varies, showing the same representativeness a loan of bigger size than a smaller one. In the residential mortgage portfolio, the bulk is in the tranche comprising up to EUR 200,000, with a resulting share above 94%. In the case of the commercial mortgage pool, significant differences are seen, with loans with outstanding amounts under EUR 200,000 accounting for less than 85% of the pool, giving a greater weight to loans of larger dimensions (15.4%).

Chart 5: Loan amount distribution (by mortgage units)



Source: own elaboration from ECBC Label data

In line with the above, in the case of the residential portfolio, the 10 largest exposures represented 0.3% of the outstanding balance, while in the case of the commercial portfolio this coefficient stood at 8.1%.

6. Loan Seasoning

Gross lending is following a path of sustainable growth for several consecutive years, with a clear reflection on the outstanding pool. As of June 2019, the volume of loans with a seasoning up to 12 months increased in the aggregate portfolio, from 9.8% in the same period of the previous year to 10.3% today. Regarding loans with a seasoning from 12 to 60 months, this magnitude stood at 25.5%, representing the bulk of the portfolio those loans originated more than 60 months ago (5 years), although their share dropped from 67,7% in the previous year down to 64,2% in June 2019.

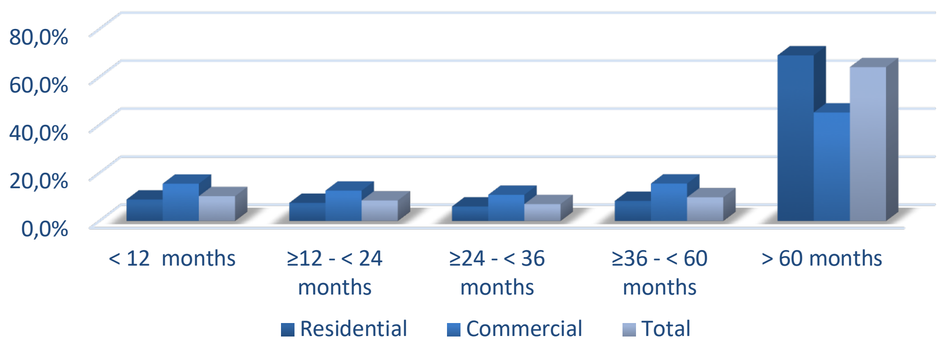
Table 7

Loan seasoning			
Buckets	**Total**	**Residential**	**Commercial**
Of which up to 12 months	10.3%	9.0%	15.6%
Of which between 12 and 24 months	8.6%	7.5%	12.7%
Of which between 24 and 36 months	7.1%	6.1%	10.9%
Of which between 36 and 60 months	9.9%	8.4%	15.6%
Of which more than 60 months	64.2%	69.1%	45.2%

Source: own elaboration from ECBC Label data

If the pool is disaggregated by segments, the results differ significantly among portfolios. In the case of residential collateral, approximately 9.0% of the outstanding balance is under 12 months old, 22% exceeded 12 months but were under 60 months and, finally, 69.1% would have been in the balance for more than 60 months. By contrast, the seasoning of the commercial portfolio was more recent: loans subscribed less than a year ago accounted for 15.6%, 54.8% for those subscribed 5 years (60 months) ago; loans subscribed more than 5 years ago, although with a significant weight in the portfolio, had a considerably lower market share than the residential portfolio (45.2%).

Chart 6: Loan seasoning



Source: own elaboration from ECBC Label data

7. Amortisation Profile

As of June 2019, the percentage structure of the different tranches on amortisation terms of the aggregate portfolio remained roughly unchanged.

Table 8

Amortisation profile	
0-1 years	3.9%
1-2 years	2.5%
2-3 years	2.7%
3-4 years	2.9%
4-5 years	3.1%
5-10 years	17.5%
+10 years	67.4%
WA Life (years)	14.55

Source: own elaboration from ECBC Label data

Specifically, 15.1% of the total outstanding portfolio is expected to be partially or totally repaid within the next 5 years, compared to 14.9% just one year ago. Between the next 5 to 10 years, about 17.5% of the balance is expected to be repaid, keeping the allocation identical to the previous year. Finally, 67.4% of balance is not expected to be repaid at least over the next 10 years.

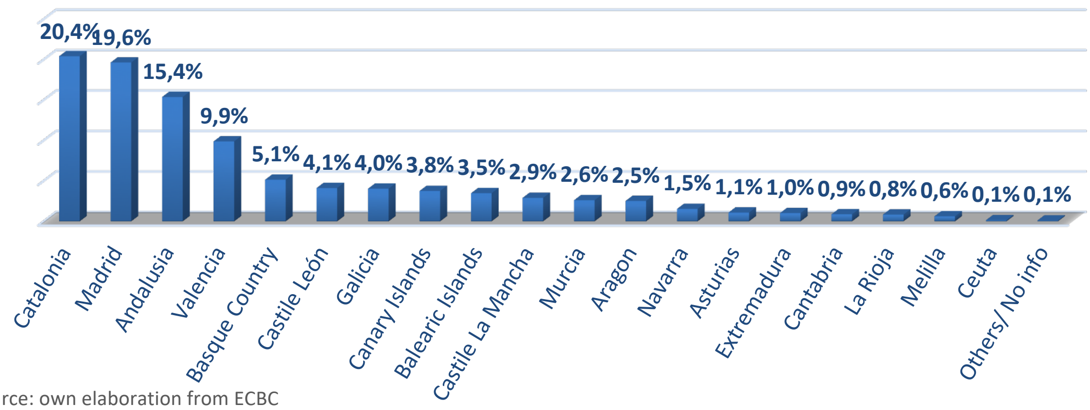
As for the pool's *weighted average life*, there was a smooth drop compared to previous years, standing at 14.6 years as of June 2019. However, it should be clarified that these data are considering the weighting of the term according to the payment schedule of the loan, being especially significant the case where a loan follows the French repayment system, by which the principal is amortised as the instalments are paid. These data therefore contrast significantly with the *weighted average maturity* - not considering the latter criterion, but only the outstanding contractual life - which will be necessarily higher, reaching around 18 years as of June 2019.

In addition, for an available sample of approximately 73% of the total collaborating institutions under study, the aggregate pool had a *weighted average age* of 8.5 years, which in combination with the residual maturity, gives an average duration per loan of 26.5 years. This figure is somehow in line with the data provided by the Bank of Spain on gross lending, according to which -on average- the contractual period formalised for a mortgage is close to 24 years.

8. Geographic Distribution

The geographical profile of the pool draws a similar scenario compared to previous reports. Thus, 70.4% was concentrated in the more significant areas in economic terms. Catalonia tops the ranking by loan amount, with 20.4% share. The Community of Madrid ranks second with 19.6%, followed by Andalusia (15.4%), the Community of Valencia (9.9%) and, to a lesser extent, the Basque Country (5.1%). The other regions, less representative, constitute 29.6%.

Chart 7: Cover pool breakdown by regions



Source: own elaboration from ECBC

By segments, the structural composition is very close to the scenario of the aggregate pool, also grouping communities such as Catalonia, Madrid, Andalusia, Valencia or the Basque Country the largest representation of the pool, reaching 70.5% share in the residential and 70.3% in the commercial portfolio.

In terms of the total balance of the pool, 99.5% would be backed by properties based in Spain and the remaining 0.5% abroad, most of them within the European territory.

Table 9

International Exposure of the Pool	
European Union	99.9%
Spain	99.5%

Source: own elaboration from ECBC Label data

9. Interest Rates

As for the modality of the interest rate contracted in the pool, it is observed that fixed interest rates[7] continued to grow, despite being unpopular for decades. The absence of conditions for such a competitive offer in the past, made fixed rate contracts less attractive.

As of June 2019, the percentage of stock linked to a fixed interest rate was near 30% higher compared to the data recorded one year ago, when they accounted for 14.7% of the pool.

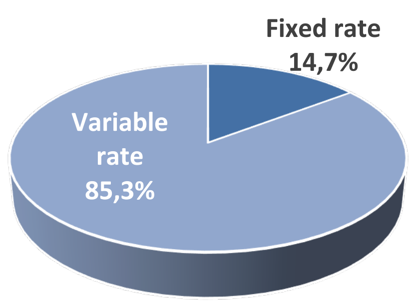
Table 10

Interest Rate by Collateral Type			
	Total	**Residential**	**Commercial**
Fixed	14.7%	13.8%	19.4%
Variable	85.3%	86.2%	80.6%

Source: own elaboration from ECBC Label data

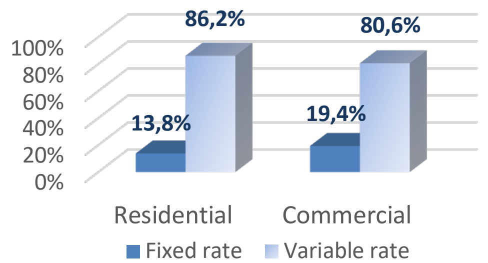
Within the residential portfolio, the proportion of loans linked to a fixed interest rate was near to 14% of the outstanding lending, in contrast with the variable interest rate[8], that in spite of maintaining a sizeable representativeness, have lost some momentum in the last years. In parallel, in the non-residential portfolio, the fixed interest rate arrangements showed an increase compared to previous exercises, reaching a market share above 19%.

Chart 8: Cover pool interest rate distribution



Source: own elaboration from ECBC Label data

Chart 9: Cover Pool interest rate distribution by Collateral type



Source: own elaboration from ECBC Label data

---

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

10. Further Data

During the first half of 2019 the pool continued to perform positively, showing an improvement in the weighted ratio of NPL (Non-Performing Loans)[9] from 5.6% in June 2018 to 4.5% in June 2019. This coefficient, which for several exercises has performed well in the residential portfolio, was 3.7% in June 2019 compared to 4.1% in the previous year. Likewise, the doubtful pool of non-residential assets continued to show clear signs of improvement, moving from 11.9% in June 2018 to 8.0% in June 2019, thus limiting the pool's exposure to this type of asset.

For an available sample of 10 institutions out of the 13 under study, 0.9% of the balance corresponded to loans in default, with defaults ranging between 1 and 30 days; 0.6% would be in default for a period of between 30 and 90 days (1 month to 3 months); 3.3% would be exceeding 90 days of default, of which 3% would have exceeded 180 days (6 months).

Finally, regarding the repayment system, the French system (with constant instalments) dominated the residential portfolio, accounting for 99.1%. In the case of the commercial portfolio, 86.7% of the loans are linked to a French repayment method, 7.8% of the portfolio corresponded to a bullet or interest only system and the remaining 5.5% to any other different method from the aforementioned.

Table 11

Cover Pool by Repayment System	Total	Residential	Commercial
French amortising	96.1%	99.1%	86.7%
Bullet- Interest Only	2.1%	0.4%	7.8%
Other	1.9%	0.5%	5.5%

Source: own elaboration from ECBC Label data

[9] *Loans with defaults of more than 90 days, considering the total loan amount.*