Asociación Hipotecaria Española

A report by the Spanish Mortgage Association

APRIL 2017

Analysing the Spanish mortgage pool

www.ahe.es

Table of contents

Analysing the Spanish mortgage pool

April 2017

1. Preliminary comments

This report by the Spanish Mortgage Association presents a brief analysis on the composition of Spanish credit institutions' total mortgage pool.

The figures analysed comprise data from 12 credit institutions[1] whose outstanding mortgage portfolio accounts for 95% of the total national outstanding mortgage value excluding outstanding residential mortgage-backed securities (RMBs).

The data was extracted 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 European Covered Bond Council (ECBC) the Spanish Mortgage Association manages part of the publication process of this information as well as the definition of the different concepts. Thus, all the variables presented in this analysis are subject to a homogeneous definition.

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

[1] *The data analysed is dated to December 2016 except for 1 institution (which represent 3.45% of the cover pool) with data available of June 2016.*

2. Fundamental data of the cover pool

The data in this report corresponds to 12 Spanish credit institutions[2] issuers of covered bonds that have the ECBC's Covered Bond Label[3] for their issuance.

The overall value of the analysed portfolio rose nearly to 500 billion euro, representing a 95.2% of the total national outstanding mortgage lending in December 2016 (525 billion euro), not including on-balance sheet RMBs.

The weighted average loan size in the pool was EUR 98,480 with a remaining weighted average contractual life of 18.38 years.

For the 89.1% of the available cover pool, the average of LTV reached a ratio of 58.2% with a decrease of 4 percentage points (pps) in relation to the report posted in December 2015. For its part, 19.2% belongs to those mortgages that have been granted with a LTV over 80% (13.3% December 2015)

Table 1

General information	
Outstanding lending (EUR million)	524,876
HTT portfolio (EUR million)	499,891
Size of portfolio	95.2%
Residential	74.2%
commercial	25.8%
number of loans	5,341,574
Average amount (EUR)	98,480
Average residential (EUR)	104,015
Average commercial (EUR)	211,780
Weighted average life (in years)	18.38
Average weighted LTV	58.2%

* Not including RMBs

Source: Spanish Mortgage Association

[2] *Banco Sabadell, Bankia, Caixabank, Banco Santander, Kutxabank, Unicaja Banco, Banco Popular, BBVA, Bankinter, Ibercaja Banco, Banco Marenostrum and Caja Rural Castilla-La Mancha*

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

3. Property type information

As shown in table 1, 74.2% of the analysed pool is guaranteed by residential properties[4] while the remaining 25.8% is backed by commercial lending[5].

Table 2

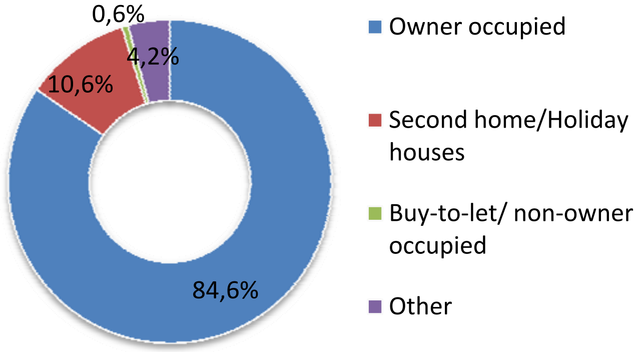
Property type	
Residential	74,2%
Maximum in pool	86,4%
Minimum in pool	41,3%
Comercial	25,8%
Maximum in pool	58,7%
Minimum in pool	13,6%

Source: Spanish Mortgage Association

Within the residential segment, for the 89.07% of the cover pool available, 84.6% of housing loans are guaranteed by owner occupied, while 10.6% is allocated to second home (holiday houses). On the other hand, 0.6% matches to buy-to let purposes encouraged due to the favourable macroeconomic and real estate climate. The remaining 4.2% represents other financial nature.

Besides, 94.7% of residential loans belong to first lien.

Chart 1: Residential property composition

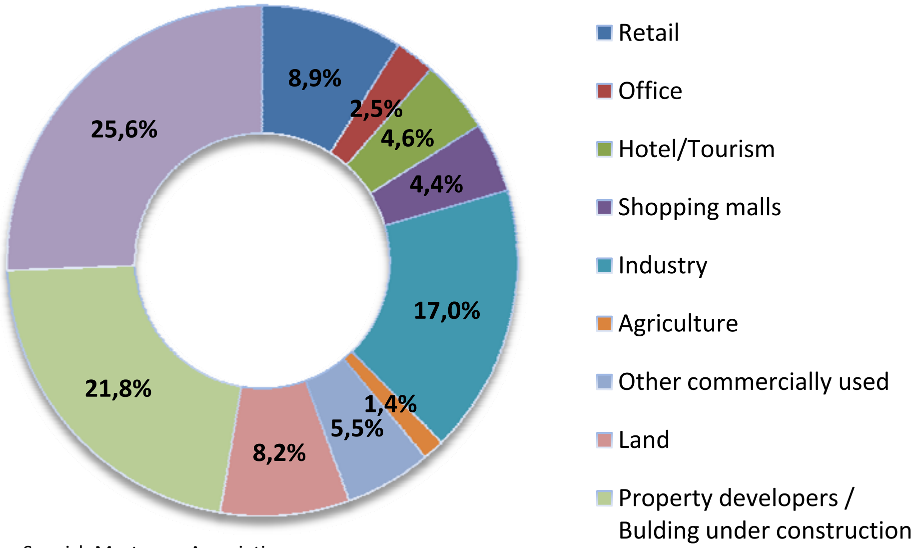


Source: Spanish Mortgage Association

[4] *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.*
[5] *Commercial loans are loans backed by a mortgage and which have recourse to a borrower excluding individuals and public sector entities.*

In regard to commercial financing (available for 9 financial entities which represent 80.6% of the sample), it is shown the recovery on real estate activity, of which a 21.8% of financing is originated for property developments (almost twice as much compare to 6 months ago) and 8.2% correspond to land purposes. For its part, retail and industrial sector assemble 8.9% and 17.0%, respectively. The remaining commercial portfolio belongs to offices, tourism, shopping malls, agriculture and other purposes.

Chart 2: Commercial property composition



Source: Spanish Mortgage Association

4. Loan to value ratio (LTV)

As aforementioned, the weighted average LTV for the 89.07% of the portfolio available was set to 58.23%.

Additionally, in the third box, we can analyse the weighted distribution of the pool's LTV in terms of LTV buckets for the entirety of the pool as well as for the residential (housing) and commercial (rest of pool) segments.

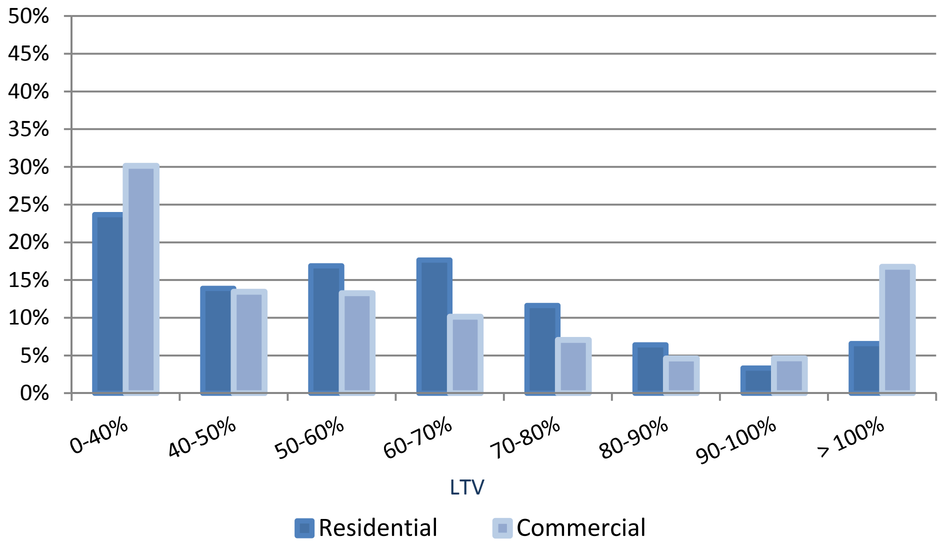
Table 3

LTV ratio distribution			
LTV	**Total**	**Residential**	**Commercial**
0-40%	24,9%	23,3%	28,7%
40-50%	13,6%	14,0%	11,6%
50-60%	15,8%	16,9%	11,3%
60-70%	16,0%	17,7%	10,0%
70-80%	10,6%	11,5%	7,1%
80-90%	5,3%	5,5%	5,0%
90-100%	3,8%	3,5%	4,9%
> 100%	10,1%	7,6%	21,4%

Source: Spanish Mortgage Association

Although the bulk financing remains within the security levels (LTV under 80% of appraisal value), for the entire portfolio a 19% belong to those loans whose LTV is over 80%. Notwithstanding, the proportion decreases when we refer to the residential segment, with a 17% share.

Chart 3: LTV residential and commercial loans LTV distribution

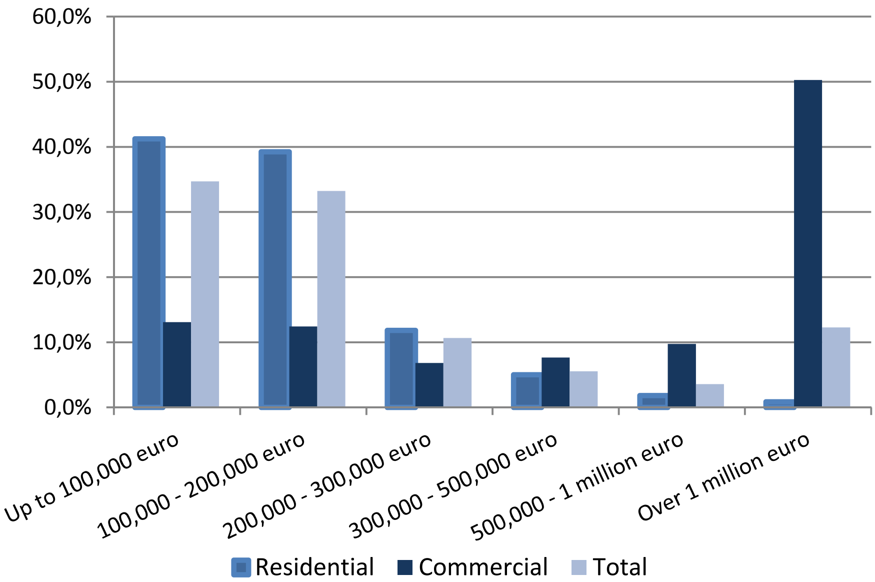


Source: Spanish Mortgage Association

5. Loan size

In this section we analyse the distribution of the pool's loans in terms of the amount lent by 9 of the 12 institutions that constitute the main sample (which represents 63.71% of the total pool). Likewise, as we did it in the previous section, in this chapter the distribution is also segmented attending to residential and commercial purposes.

Chart 4: Total, residential and commercial loan size distribution



Source: Spanish Mortgage Associarion

Roughly 80.48% of residential loans have been originated by amounts that do not exceed 200,000 euro, considering financing over one million euro as marginal in this segment (0.85%).

However, if we move on to the commercial segment, approximately 50.27% have been originated for amounts over one million euro, while a 25.51% correspond to those loans located in the interval of amounts under 200,000 euro.

Taking into consideration the incidence degree of both residential and commercial variables over the entirety of the pool, 67.96% belongs to those loans granted by amounts that do not exceed 200,000 euro and 12.27% correspond to those loans with a value over 1 million euro.

The commercial weighted average loan size for 89.07% of the available cover pool amounted to EUR 211,729. Whereas for the whole sample (all 12 institutions), the residential weighted average loan size was EUR 104,015. As a means of comparison, according to the data from the Spanish National Statistics Institute (INE), the average mortgage housing loan size between January and December 2016 was EUR 109,759.

Table 4

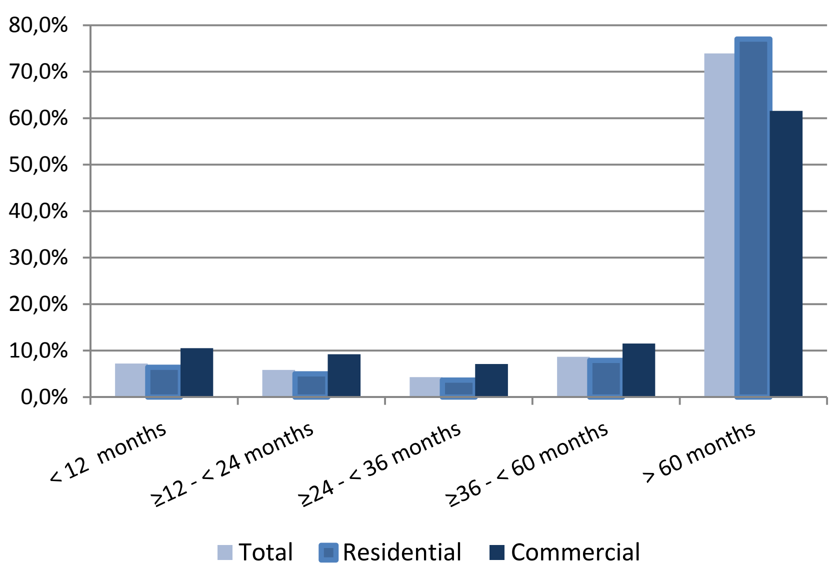
Loan size			
interval	**Total**	**Residential**	**Commercial**
Up to 100,000 euro	34,7%	41,2%	13,1%
100,000 - 200,000 euro	33,2%	39,3%	12,4%
200,000 - 300,000 euro	10,7%	11,8%	6,8%
300,000 - 500,000 euro	5,5%	5,0%	7,7%
500,000 - 1 million euro	3,6%	1,8%	9,7%
Over 1 million euro	12,3%	0,9%	50,3%

Source: Spanish Mortgage Association

6. Loan seasoning

The loan seasoning data are available for the 79.77% of the sample.

Chart 5: Loan seasoning



Source: Spanish Mortgage Association

According to the aforementioned portfolio, 73.9% have a loan seasoning of at least 60 months (5 years) for the entire pool. In parallel, 77.0% and 61.6% belong to residential and commercial segments, respectively.

Table 5

Loan seasoning			
Antigüedad	Total	Residential	Commercial
< 12 months	7,2%	6,4%	10,5%
?12 - < 24 mor	5,9%	5,0%	9,2%
?24 - < 36 mor	4,3%	3,7%	7,1%
?36 - < 60 mor	8,7%	7,9%	11,5%
> 60 months	73,9%	77,0%	61,6%

Source: Spanish Mortgage Association

7. Amortisation profile

For the 89.07% of the available pool, the weighted average maturity of the loan pool reached 18.38 years, an increase of more than 2 years compared to the year-end publication in 2015.

Thus, 67.3% of the mortgage pool have a maturity period of over 10 years, 14.1% correspond to those loans whose amortization period is set between 5 and 10 years, while the remaining 18.6% of the mortgage pool has a maturity less than 5 years. In general, the percentage structure is roughly maintained compare to previous publications exercises.

Table 6

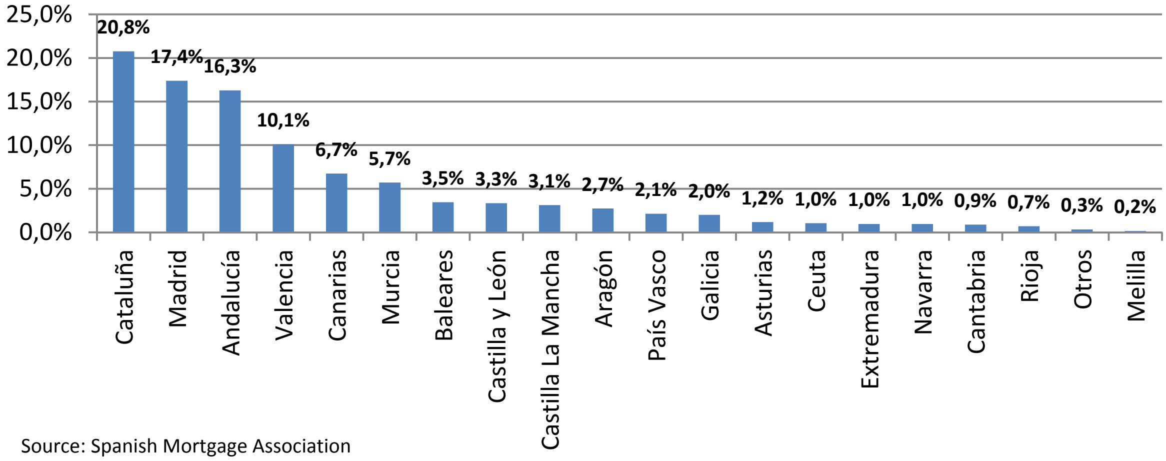
Amortisation profile	
0 - 1 years	6,0%
1 - 2 years	3,8%
2 - 3 years	2,8%
3 - 4 years	3,1%
4 - 5 years	2,8%
5 - 10 years	14,1%
10+ years	67,3%
Average maturity (years)	18,38

Source: Spanish Mortgage Association

8. Geographic distribution

For the whole sample, the portfolio leads to heterogeneous outcomes in all the national territory. Thus, Catalonia concentrates 20.8% of the total portfolio, followed by Madrid (17.4%), Andalusia (16.3%), Valencia (10.1%), Canary Islands (6.7%) and Murcia (5.7%). The proportion of loans in the rest of the regions does not surpass 4%.

Chart 6: Geographic distribution by Autonomous Regions

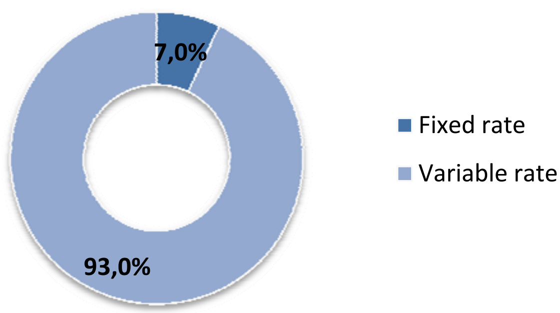


Source: Spanish Mortgage Association

9. Interest rates

According to the interest rate profile of the whole pool, 93% of loans are contracted at variable interest rate (up to 1 year of initial rate fixation), while 7% of loans have been formalized on fixed rate (over 1 year of initial rate fixation). Notwithstanding that variable rate loans are still being predominant, during the last year fixed term mortgages have increased their presence in the market, given the stability they offer to both households and financial institutions, since that interest rates are likely to remain low in the upcoming months.

Chart 7: Cover pool interest rate distribution



Source: Spanish Mortgage Association

In the commercial segment, variable interest rate mortgage loans proportion recorded a market share of around 91%, while for residential segment it was near near 95%.

Table 7

Interest rate market share		
	Residential	**Commercial**
Variable rate	5,4%	9,4%
Fixed rate	94,6%	90,6%

Source: Spanish Mortgage Association

10. Other details

Non-performing loans (NPLs) [6], for the 79.57% available of the pool, set the ratio at 8.54%, where the maximum value of the sample reached the ratio of 24.11%, while the minimum recorded a ratio of 2.77%.

Likewise, regarding the prepayment system for the whole sample, 97% use French amortization, 2% only-interest system (bullet) and the remaining 1% belongs to different nature system.

[6] Past due installments over 90 days, taking into account the total loan amount.