SPANISH COVERED BOND & SECURITIZATION STATISTICS

Data provided by AIAF (Spain's benchmark market for Corporate Debt and Private Fixed Income)

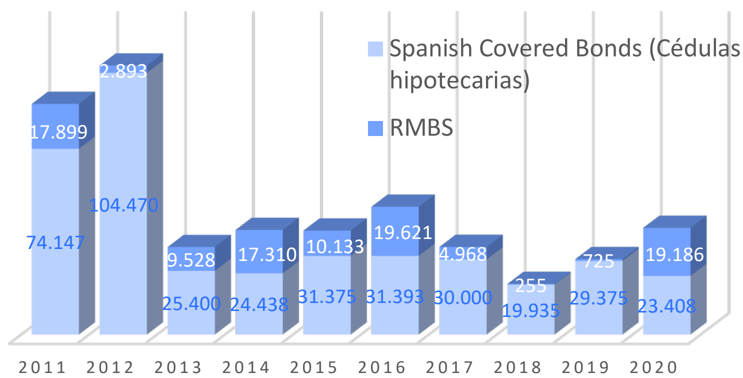
July 2021

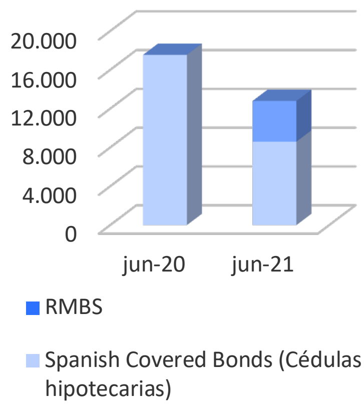
1. Issuance

During the first half of 2021, **issuances of securities backed by mortgage assets** decreased significantly, reaching a cumulative of **12,794 million euros** compared to 17,548 million euros during the first half of the previous year (-27.1%). This dynamic could be explained by the bank´s appetite for other alternative instruments, with the capacity to absorb losses and compute in turn as capital, and also by the lower liquidity needs derived from the ultra-accommodative environment sponsored by the ECB to guarantee the flow of credit to the euro area. Indeed, as a result of this policy, many of the securities issued are held by the institutions in order to be able to access ECB funding under better conditions.

Among the mortgage securities admitted to trading throughout the year, **mortgage covered bonds (*cédulas hipotecarias*)**, despite representing the bulk of the market, showed a downward trend after financial institutions stockpiled these securities during the months of confinement. In total, so far this year, **8,600 million euros** have been issued through these double-recourse covered bonds, a volume that is less than half of what was issued in the first half of 2020. Unlike the *cédulas*, the issuance of **mortgage backed securities (MBSs)** have been showing an upward trend since the second half of 2020; in aggregate in the last 12 months there have been issues worth 23,379 million euros compared to the 725 million euros observed in the same period of the previous year. As regards the first half of the year, it ended with a volume of **4,194 million euros**, an amount clearly lower than that of the previous six months (19,186 million), but definitely higher than the first half of 2020, where the issuance through this instrument was null.

> Chart 1: Yearly development of issuances (EUR million)





Source: AIAF

2. Outstanding Balance

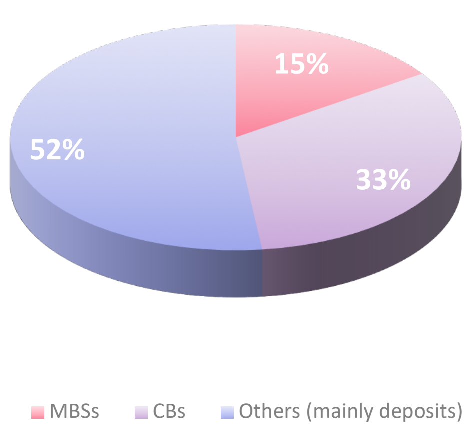
In parallel with the evolution of new issuances, **the outstanding balance of all mortgage securities** - which amounted to 307,006 million euros as of June 30, 2021 - also showed a negative evolution, recording a year-on-year fall of 2.8%.

Spanish mortgage-backed covered bonds (*cédulas hipotecarias singulares*), which had been showing an increasing trend since the end of 2018, registered a fall of 7.9% in June 2021. In absolute terms, over the last 12 months, 16,302 million euros have been amortized in net terms, reaching a balance of **191,176 million euros**. For their part, **repackages of Spanish covered bonds (*cédulas hipotecarias multicedentes*)** - an instrument used by the old savings banks due to their smaller size - maintained the trend of maturities started a decade ago in a context of zero issuances and registered a decrease of 22.8% in June 2021 (about 5,000 million less compared to 22,220 million euros in June 2020). Together, both instruments accumulated a balance of 208,336 million euros, which is 9.3% less than in June 2020, although the funding ratio of the mortgage portfolio remained slightly below 35% (outstanding balance *cédulas* vs. cover pool mortgage balance).

Contrary to what happens with the *cédulas*, **mortgage backed securities**, as mentioned above, have shown a much more favourable dynamic in the last year. In aggregate, the volume of issuances has registered an increase of 14.5% in June 2021, from the 86,184 million euros observed a year earlier to the current **98,670 million euros.** As pointed out in the previous report, the reactivation that seems to accompany the securitization market from the middle of 2020 could be understood within the current juncture in which the ECB would have lowered the requirements to admit this tool as collateral, which is also less demanding compared to the *cédulas.*

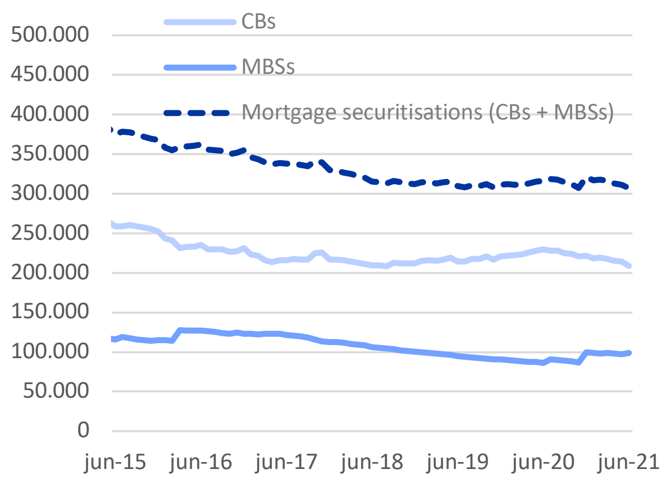
➢ Annex: additional information

Funding mix



Source: AIAF y Banco de España

Outstanding issuances (EUR million)



Source: AIAF

3. New legislation framework for the covered bond market

Directive 2019/2162 *of the European Parliament and of the Council on the issue of covered bonds and covered bond public supervision* was published at the end of 2019. This Directive was adopted in order to harmonise the legislative frameworks of the different European jurisdictions, for further integration of capital markets. At the national level, on June 25, 2021, the *Ministry of Economic Affairs and Digital Transformation* submitted to public hearing the Draft Law on covered bonds that transposes this Directive into Spanish law. This regulation is not limited only to mortgage bonds, but has a broader scope of application, regulating other types of covered bonds such as mortgage bonds, covered bonds secured by public sector loans (*cédulas territoriales)* or internationalization covered bonds (*cédulas o bonos de internacionalización*).

Some of the most innovative aspects that this future law will introduce, in line with the provisions of the Directive, are the regulation of the figure of the *cover pool monitor* as a control and supervisory body of the portfolio affecting the issuance of bonds; and the incorporation of the specific *insolvency administrator* who independently oversees the rights of bondholders and holders of derivatives in the event of bankruptcy of the issuer. The Bank of Spain is also given an important role in the authorization of issue programs and in the supervision of the obligations established by law. These are certainly positive aspects that will strengthen investor guarantees and improve compliance with the regulatory framework. In addition, other obligations are included to provide greater security to the capital market, such as the introduction of a *liquidity buffer* that allows to cover the payment of interest and principal for at least 180 days. In addition, it is foreseen the use of *soft bullets* that will allow the extension of the payment of the bonds in certain circumstances to avoid possible liquidity tensions. As a novelty compared to other jurisdictions, a minimum level of overcollateralization is not regulated (currently set at 25% for *cédulas hipotecarias* and 43% for *cédulas territoriales*), which could have a less favourable impact in terms of coverage for the investor despite the rest of the regulatory improvements. Additionally, although *soft-limits* are not allowed, for the purposes of calculating the eligible portfolio, a laxer treatment is established in the event that LTV levels exceed 80%.

In short, this reform aims both to improve the funding system at national level and to facilitate the transition to a more efficient European market, which will lead to greater transparency and protection for investors while fostering liquidity for credit institutions within a competitive environment.

ASOCIACIÓN HIPOTECARIA ESPAÑOLA
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Data provided by AIAF (Rector Society of the Financial Market)

ISSUANCE (Euro Million)

	Spanish Cédulas Hipotecarias (individual)	Multiseller Covered Bonds [1]	Mortgage Backed secruirites [2]	**Total mortgage securities**
2016	*31.393*	*0*	*19.621*	*51.014*
2017	*30.000*	*0*	*4.968*	*34.968*
2018	*19.935*	*0*	*255*	*20.190*
2019	*29.375*	*0*	*725*	*30.100*
2020	***23.408***	***0***	***19.186***	***42.594***
jun.-20	*17.548*	*0*	*0*	*17.548*
jun.-21	***8.600***	***0***	***4.194***	***12.794***

OUTSTANDING VOLUME (Euro Million)

	Spanish Cédulas Hipotecarias (individual)	Multiseller Covered Bonds [1]	Mortgage Backed secruirites	**Total mortgage securities**
2016	*186.528*	*44.980*	*123.426*	*354.934*
2017	*181.328*	*35.170*	*112.938*	*329.436*
2018	*183.258*	*28.495*	*100.238*	*311.991*
2019	*195.699*	*24.970*	*90.708*	*311.376*
2020	***199.449***	***22.220***	***99.401***	***321.070***
jun.-20	*207.478*	*22.220*	*86.184*	*315.883*
jun.-21	***191.176***	***17.160***	***98.670***	***307.006***

Year on year variation of the outstanding volumes (%)

	Spanish Cédulas Hipotecarias (individual)	Multiseller Covered Bonds [1]	Residential Mortgage Backed secruirites	**Total mortgage securities**
2016	*-3,9%*	*-22,9%*	*7,3%*	*-3,4%*
2017	*-2,8%*	*-21,8%*	*-8,5%*	*-7,2%*
2018	*1,1%*	*-19,0%*	*-11,2%*	*-5,3%*
2019	*6,8%*	*-12,4%*	*-9,5%*	*-0,2%*
2020	***1,9%***	*-11,0%*	***9,6%***	***3,1%***
jun.-20	*11,4%*	*-20,8%*	*-9,4%*	*2,1%*
jun.-21	***-7,9%***	***-22,8%***	***14,5%***	***-2,8%***

Weight of the Mortgage securities over the oustanding mortgage lending (%) [2]

	Total Spanish Cédulas Hipotecarias (individual and multiseller)	Residential Mortgage Backed secruirites	**Total mortgage securities**
2015	*36,4%*	*16,6%*	*53,0%*
2016	*35,1%*	*18,7%*	*53,7%*
2017	*31,7%*	*16,5%*	*48,2%*
2018	*32,1%*	*15,2%*	*47,2%*
2019	*34,3%*	*14,1%*	*48,4%*
2020	*35,1%*	*15,7%*	*50,8%*
jun.-21	***33,0%***	***15,6%***	***48,6%***

[1] Multiseller covered bonds = Cédulas Hipotecarias in a CDO structure

[2] As of 2017 the data of outstanding mortgage lending used in the denominator of the ratio is subject to 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 neither from Financial Credit Establishments (EFCs) nor of MBS removed from banks' balance sheets.