29 May 2020 | Rating Watch

Correct: Fitch Places Bankia CVB on RWN; Revises Outlook on 5 Spanish CVB Programmes to Negative

Fitch Ratings-Madrid-29 May 2020:

This rating action commentary replaces the version published on 8 April 2020 to correct the relied-upon OC ratio for Bankia CH and the solicitation status disclosures for Santander CH. All other content is as of the original publication date.

Fitch Ratings has placed Bankia S.A's (BBB/RWN/F2) Spanish mortgage covered bonds (Cedulas Hipotecarias, CH) on Rating Watch Negative (RWN). Fitch has also revised the Outlooks on four CH programmes and one public sector covered bond programme (Cedulas Territoriales, CT) to Negative from Stable. The rating actions follow corresponding rating action on the Long-Term Issuer Default Ratings (IDR). A full list of rating actions is below.

KEY RATING DRIVERS

Mirroring Bank Rating Actions

The covered bond ratings are directly linked to their respective IDRs. Therefore, the RWN and Outlook revisions on the covered bonds mirror the corresponding rating actions on the issuers including Bankia S.A's IDR placed on RWN, and the Outlooks on Bankoa S.A, (A-/Negative/F1) Cajamar Caja Rural, S.C.C. (BB-/Negative/B), Banco Santander S.A. (A-/Negative/F2) and Union de Creditos Inmobiliarios S.A. (UCI, BBB/Negative/F2) revised to Negative from Stable. Resolution of the RWN on Bankia CH is directly linked to the resolution of RWN on Bankia, which may take longer than six months.

See "Fitch Takes Action on 17 Spanish Banking Groups On Heightened Challenges from Coronavirus Outbreak", "Fitch Downgrades Grupo Cooperativo Cajamar to 'BB-' on Coronavirus Outbreak; Outlook Negative", "Fitch Revises Outlook on Union de Creditos Inmobiliarios to Negative; Affirms at 'BBB'", and "Fitch Revises Bankoa's, KAS', UBAF's Outlooks to Negative After Similar Action on Credit Agricole" published on 27, 31 March and 03 April 2020, respectively.

Unchanged Rating Uplifts

The rating actions do not have an impact on the uplifts assigned to any of the programmes.

Spanish covered bonds are rated between three and five notches above the respective Long-Term IDRs, consisting of an IDR uplift of one-to-two notches (one for Bankoa's and UCI's CH and two for the rest), a payment continuity uplift (PCU) of zero notches and a recovery uplift of two to three notches (three for Cajamar's CH and CT and two for the rest). The CH and CT ratings also consider the overcollateralisation (OC) protection for covered bond holders.

Ample OC Compensates for COVID-19 Stress

Fitch expects the coronavirus containment measures to negatively affect the performance of Spanish residential mortgages and commercial loans, as rapid job losses are taking place, consumer demand is suffering and various markets continue to be depressed. To reflect these adverse macroeconomic circumstances, Fitch's credit analysis of the cover pools has accommodated additional sensitivities linked to larger projected loses, which are fully compensated by the relied-upon OC ratios of the covered bond programmes (see Rating Sensitivities).

ESG - Governance

All CH and CT programmes have an Environmental, Social and Governance (ESG) Relevance Score of 5 for Transaction & Collateral Structure due the absence of a dedicated liquidity protection mechanism in the Spanish covered bond framework. This explains the PCU of zero notches. Fitch rates the CH and CT programmes on a recovery basis approach and does not test for timely payment on the covered bonds.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade of any of the banks' IDR would lead to an equivalent upgrade of the covered bonds, as there is a direct link between the CH and CT ratings and the respective Long-Term IDRs.

The introduction of dedicated liquidity protection mechanisms that effectively mitigate payment interruption risk on the covered bonds if the cover pool becomes the source of repayment. This is because CH and CTs have hard bullet redemptions while the cover assets gradually amortise. In this scenario, Fitch would be able to grant a PCU greater than zero notches currently.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A downgrade of any of the banks' IDR would lead to an equivalent downgrade of the covered bonds, as there is a direct link between the CH and CT ratings and the respective Long-Term IDRs.

The covered bonds would be downgraded if the lifetime projected credit losses on the cover pools are not fully compensated by the OC Fitch relies upon. We view this scenario as highly remote considering the Spanish covered bonds framework, which offers ample OC cushions, defining the cover pool as all the non-securitised loans within the balance sheet of the issuer.

Fitch's breakeven OC for the assigned rating corresponds to the lifetime credit loss expectation on the cover pool. It can be affected by the profile of the cover assets relative to outstanding covered bonds, and it can change over time. The relied upon OC provides substantially more protection than the corresponding breakeven OC for the CH or CT rating:

Bankia CH: 18.0% 'A+' breakeven OC, 140.0% relied-upon OC;

Bankoa CH: 16.5% 'AA-' breakeven OC, 211.5% relied-upon OC;

Cajamar CH: 13.0% 'BBB+' breakeven OC, 108.0% relied-upon OC;

Cajamar CT: 17.0% 'BBB+' breakeven OC, 42.8% relied-upon OC:

Santander CH: 32.5% 'AA' breakeven OC, 91.5% relied-upon OC;

UCI CB: 48.5% 'A' breakeven OC, 698.0% relied-upon OC.

If the relied upon OC was lower than the 25% legal minimum OC in Spain, there would be a one-notch downgrade of Santander and UCI CH ratings. For the rest of the programmes, the ratings would remain unchanged as the 25% OC (for CH) and 42.8% (for CT) would still be above the breakeven OCs in the respective rating scenario.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CRITERIA VARIATION

Bankoa CH: Treatment of Obligor Concentration Risk: Fitch assumed a 100% loss severity on the top 10 obligors within the commercial and real estate sub pools, to account for the very large obligor concentration risk. This is a variation from the agency's Multi-Issuer Cedulas Hipotecarias Rating Criteria, which assumes portfolios to be highly granular not exposed to significant single obligor concentration risks. No rating impact is linked to this variation.

UCI CB: Treatment of Broker-Originated Loans: The foreclosure frequency adjustment for broker-originated loans was reduced to 120% from 150% as defined by Fitch's European RMBS Rating Criteria, supported by UCI's overhaul of its underwriting standards since 2009 and the performance data provided. This variation has no model-implied rating impact.

UCI CB: Treatment of Non-Performing Loans: Fitch assumed a 100% loss severity for loans in arrears over 90 days as a large proportion of these has been subject to multiple restructurings. This is a variation from Fitch's European RMBS criteria, which assigns an 84% foreclosure frequency floor expectation for loans in arrears over 90 days under the 'A' stress scenario. This has no model-implied rating impact.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The CH and CT ratings are driven by the credit risk of the respective issuer as measured by its Long-Term IDR.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the covered bond programmes, either due to their nature or the way in which they are being managed by the respective issuers.

Bankia SA, Mortgage CH, Bankoa SA, Mortgage CH, Cajamar Caja Rural SCC, Mortgage CH, Cajamar Caja Rural SCC, Public Sector CT, Banco Santander SA, Mortgage CH and Fondo de Titulizacion Structured CvBs UCI, Mortgage CH each have an ESG Relevance Score of 5 for Transaction & Collateral Structure due the absence of a dedicated liquidity protection mechanism in the Spanish CvB framework, which has a negative impact on the credit profile, and is highly relevant to the rating, resulting in a payment continuity uplift of zero notches.

Bankia S.A.
----senior secured, Mortgage Covered Bonds, Cedulas Hipotecarias; Long Term Rating; Rating Watch On; A+; RW: Neg
Fondo de Titulizacion Structured Covered Bonds UCI
----senior secured, Mortgage Covered Bonds, Structured; Long Term Rating; Affirmed; RO:Neg
Cajamar Caja Rural, Sociedad Cooperativa de Credito
----senior secured, Public Sector Covered Bonds, Cedulas Territoriales; Long Term Rating; Affirmed; RO:Neg
----senior secured, Mortgage Covered Bonds, Cedulas Hipotecarias; Long Term Rating; Affirmed; RO:Neg
Bankoa S.A.
----senior secured, Mortgage Covered Bonds, Cedulas Hipotecarias; Long Term Rating; Affirmed; RO:Neg
Banco Santander, S.A.
----senior secured, Mortgage Covered Bonds, Cedulas Hipotecarias; Long Term Rating; Affirmed; RO:Neg

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Applicable Criteria

Bank Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)
Covered Bonds Rating Criteria (pub. 24 Jul 2019) (including rating assumption sensitivity)
Covered Bonds and CDOs Public Entities' Asset Analysis Rating Criteria (pub. 14 Oct 2019) (including rating assumption sensitivity)
Multi-Issuer Cedulas Hipotecarias Rating Criteria (pub. 10 Dec 2019) (including rating assumption sensitivity)
Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 06 Feb 2020)
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 06 Dec 2019)

Additional Disclosures

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