FitchRatings

RATING ACTION COMMENTARY

Fitch Revises La Hipotecaria's Mortgage Covered Bonds Outlook to Stable After Sovereign Action

Thu 10 Feb, 2022 - 12:16 p. m. ET

Fitch Ratings - São Paulo - 10 Feb 2022: Fitch Ratings has affirmed the rating of Banco La Hipotecaria, S.A.'s (BLH, BB+/Stable) mortgage covered bonds at 'BBB-'. The Rating Outlook is revised to Stable from Negative. The revision in Outlook reflects the revision of Panama's Rating Outlook to Stable from Negative, as the program is capped at Panama's sovereign rating.

The 'BBB-' rating of BLH's covered bonds is based on the bank's Long-Term Issuer Default Rating (IDR) of 'BB+' and on the various uplifts granted to the program. It also considers the overcollateralization (OC) protection for covered bond holders, in addition to the cap at Panama's sovereign rating (BBB-/Stable).

KEY RATING DRIVERS

Sovereign Constraint: BLH's 'BBB-' mortgage covered bond rating is constrained by Panama's Long-Term IDR (BBB-/Stable) due to the cover pool's exposure to the state. Almost 60% of the residential mortgages in the cover pool are granted to civil servants and more than 70% of the loans have subsidies from the government of the Republic of Panama.

Four-Notch Uplift: BLH's covered bonds are rated one notch above the bank's IDR, out of a maximum achievable uplift of four notches. The latter consists of a resolution uplift of zero notches, a payment continuity uplift (PCU) of one notch, and a recovery uplift of three notches. The uplifts are unchanged.

OC: In its analysis, Fitch relies upon a contractual OC of 25%, which provides more protection than the agency's breakeven OC of 0%. Fitch expects a fully collateralized program (i.e. with an OC of 0%) secured by residential mortgage loans to generate good recoveries given default, commensurate with a one-notch recovery uplift.

Payment Continuity Uplift: Fitch granted a one-notch PCU instead of the standard six-notches for programs with a 12-month principal extension and three-month liquidity reserve for interest protection. This reflects Fitch's view that once the liquidity reserve has been used for one interest payment if the issuer defaults just before a covered bond payment date, interest and principal collections from the cover pool may be insufficient to meet the subsequent interest payments on the bonds in time. This is because of potential delays in the collection of the tax credit related to the interest subsidies offered to borrowers and to the current low seasoning of the cover pool, which make principal collections low.

Counterparty Trigger Breach Doesn't Impact Current Rating: In February 2022, the rating of Banco General S.A. (BG) was affirmed at 'BBB-', and its Outlook was revised to Stable from Negative. Since February 2021, the rating is below the minimum threshold for the account bank rating under the program documents, which stipulate it should be the greater of 'BBB' and the sovereign rating of Panama (currently BBB-). Remedial action is still pending. However, this doesn't impact the rating of the covered bonds, as it is based on a recovery uplift above the issuer rating and timely payment is not tested under this scenario.

RATING SENSITIVITIES

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

An upgrade of the rating of BLH's covered bonds would be possible if Panama's sovereign rating is upgraded. This is as long as the relied-upon OC for the program remains above the breakeven OC commensurate with the corresponding rating scenario.

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

BLH's 'BBB-' covered bond rating would be vulnerable to downgrade in-line with any downwards movement of the sovereign Long-Term IDR, given that it acts as a cap to the rating. In addition, the bonds could be downgraded if the bank's Long-Term IDR falls by four or more notches to 'B' or below.

The 'BBB-' breakeven OC would increase in the event of an IDR downgrade. Under Fitch criteria, the program could use more than one notch of recovery uplift if OC compensates for credit losses in the respective rating scenario. Also, if Fitch were to test cash flows for timely payment, this would absorb more OC than in a recovery given default analysis, as recovery expectations are not tied to a particular time horizon.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond 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

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 covered bond rating is linked to Banco La Hipotecaria's rating.

ESG CONSIDERATIONS

Banco La Hipotecaria, S.A., mortgage covered bonds have an ESG Relevance Score of '4+' for Human Rights, Community Relations, Access & Affordability due to lower default rates observed considering the segment, which is explained by a payroll deductibility mechanism in place as well as interest rate subsidies given by the government of the Republic of Panama, which has a positive impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Banco La Hipotecaria, S.A.			
senior secured, Mortgage Covered Bonds, Mortgage Covered Bonds	LT	BBB- Rating Outlook Stable Affirmed	BBB- Rating Outlook Negative

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Juliana Ayoub
Director
Primary Rating Analyst
+55 11 4504 2200
juliana.ayoub@fitchratings.com
Fitch Ratings Brasil Ltda.
Alameda Santos, nº 700 – 7º andar Edifício Trianon Corporate - Cerqueira César São Paulo, SP SP Cep 01.418-100

Richard Villareal
Associate Director
Secondary Rating Analyst
+1 312 368 3127
richard.villareal@fitchratings.com

Helene Heberlein
Managing Director
Committee Chairperson
+33 1 44 29 91 40
helene.heberlein@fitchratings.com

MEDIA CONTACTS

Elizabeth Fogerty
New York

+1 212 908 0526
elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Covered Bonds Rating Criteria (pub. 02 Jun 2021) (including rating assumption sensitivity)

Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 28 Oct 2021)

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 04 Nov 2021)

Bank Rating Criteria (pub. 12 Nov 2021) (including rating assumption sensitivity)

Latin America RMBS Rating Criteria (pub. 17 Dec 2021) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Banco La Hipotecaria, S.A.	EU,UK Endorsed

DISCLAIMER

COPYRIGHT

reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Structured Finance: Covered Bonds   Banks   Structured Finance   Latin America

Central America   Panama