FitchRatings

Fitch Affirms La Hipotecaria's El Salvadorian Cross-Border Transactions

Fitch Ratings - Chicago - 27 September 2019:

Fitch Ratings has affirmed the ratings of the La Hipotecaria Eleventh Mortgage-Backed Notes Trust and La Hipotecaria Thirteenth Mortgage-Backed Notes Trust series A notes. Fitch has also affirmed the ratings of the La Hipotecaria El Salvadorian Mortgage Trust 2013-1 and 2016-1 certificates. The Rating Outlook for all of the notes and certificates is Stable.

RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR
La Hipotecaria Thirteenth Mortgage-Backed Notes Trust			
A PAL3008861A4	LT Bsf Affirmed		Bsf
La Hipotecaria El Salvadorian Mortgage Trust 2013-1			
Series 2013-1 Certificates 501716AA2	LT AAAsf Affirmed		AAAsf
La Hipotecaria El Salvadorian Mortgage Trust 2016-1			
2016-1 50346VAA7	LT AAAsf Affirmed		AAAsf
La Hipotecaria Eleventh Mortgage-Backed Notes Trust			
Series A Notes PAL3005461A6	LT Bsf Affirmed		Bsf

KEY RATING DRIVERS

Performance of the Underlying Assets: As of July 31, 2019 the underlying portfolio of 1,155 loans for the La Hipotecaria Eleventh Mortgage-Backed Notes Trust continued to perform better than expected. The current loan-to-value (CLTV) of the portfolio is 72.2%, continuing to decline from the original loan-to-value (OLTV) of 81.3%. The portfolio benefits from 60.6% of the pool having direct deduction from borrower pay checks, which has helped to maintain delinquencies at low levels. Cumulative +180-day delinquencies represent 2.2% of the original pool balance, which is lower than the 7.0% base case initially expected by Fitch. Out of 54 loans that have reached 180+ days, 22 have been foreclosed, with recoveries of almost 100%, which is higher than initially expected for the base case. Prepayments have been in line with Fitch's expectations, averaging 4.7% over the life of the transaction and 4.4% over the last 12 months.

For La Hipotecaria Thirteenth Mortgage-Backed Notes Trust the July 31, 2019 portfolio was composed of 1,112 loans and has performed more in line with Fitch's expectations. The CLTV of the portfolio is 77.6% and continues to decline from the OLTV of 81.5%. The portfolio benefits from 67% of the pool having direct deduction from the borrower pay checks, which has helped to maintain delinquencies at low levels. Cumulative +180-day delinquencies represent 1.1% of the original pool balance, which is lower than the 2.5% base case initially expected by Fitch. As of the cut-off date, 16 loans reached 180+ days, two of which have been recovered, resulting in a net loss of 0%. Prepayments have been in line with Fitch's expectations, averaging 3.7% over the life of the transaction and 4.5% over the last 12 months.

Cash Flow Analysis: Credit enhancement has built during the last year due to the sequential nature of the structures. As of July 2018, credit enhancement for La Hipotecaria Eleventh Mortgage-Backed Notes Trust has increased to 33.7% from 29.5% observed during the same month of last year. For La Hipotecaria Thirteenth Mortgage-Backed Notes Trust, credit enhancement has increased to 15.4% up from 13.6% observed during the same month of last year. Stability on excess spread provides additional enhancement to the transactions.

Sovereign: On June 17, 2019 Fitch affirmed El Salvador's Long-Term Issuer Default Rating (IDR) at 'B-' and its Country Ceiling (CC) at 'B'. According to Fitch's 'Structured Finance and Covered Bonds Country Risk Rating Criteria' (October 2018), the ratings of Structured Finance notes cannot exceed the CC of the country of the assets, unless the transfer and convertibility (T&C) risk is mitigated. While the transaction has sufficient credit enhancement to be rated above the country's IDR, the T&C risk is not mitigated, so the ratings remain constrained by the CC and ultimately linked to the ratings of El Salvador.

Operational Risk: For the La Hipotecaria Eleventh Mortgage-Backed Notes Trust and the La Hipotecaria Thirteenth Mortgage-Backed Notes Trust, pursuant to the servicer agreement, Grupo ASSA, S.A. (the primary servicer, BBB-/Stable) hired La Hipotecaria S.A. de C.V. (the sub-servicer) to be the servicer for the mortgages. Fitch has reviewed La Hipotecaria S.A. de C.V.'s systems and procedures and is satisfied with its servicing capabilities. These capabilities are also demonstrated through historical asset performance. Additionally, Banco General S.A. (BBB+/Stable) has been designated as back-up servicer in order to mitigate the exposure to operational risk and will replace the defaulting servicer within five days of a servicer disruption event.

Credit Quality: The ratings assigned to the 2013-1 and 2016-1 certificates are commensurate with the credit quality of the guarantee provider. The credit quality of Overseas Private Investment Corporation (OPIC) is directly linked to the U.S. sovereign rating (AAA/F1+/Stable) as guarantees issued by, and obligations of, OPIC are backed by the full faith and credit of the U.S. government, pursuant to the Foreign Assistance Act of 1969.

Reliance on OPIC Guaranty: For the 2013-1 and 2016-1 certificates, Fitch assumes the payment on the notes will rely on the OPIC guaranty. Through this guaranty OPIC will unconditionally and irrevocably guarantee the receipt of proceeds from the underlying notes in an amount sufficient to cover timely scheduled monthly interest amounts and the ultimate principal amount on the certificates. The OPIC guaranty effectively protects noteholders, taking into consideration the scope of the guaranty, the claim process and the timing required for the guarantor to disburse the funds to the issuer.

Ample Liquidity: The 2013-1 and 2016-1 certificates benefit from liquidity in the form of a five-day buffer between payment dates on the underlying notes and payment dates on the certificates. Additionally, there is a reserve established to cover one month's premium under the guaranty to avoid a termination event. Fitch considers this sufficient to keep debt service current on the guaranteed certificates until funds under a claim of OPIC are received.

RATING SENSITIVITIES

The ratings of the series A notes for La Hipotecaria Eleventh Mortgage-Backed Notes Trust and La Hipotecaria Thirteenth Mortgage-Backed Notes Trust are sensitive to changes in the credit quality of El Salvador (especially its CC). A further upgrade or downgrade of El Salvador's ratings, especially its 'B' CC, could lead to an upgrade or downgrade of the notes. In addition, severe increases in foreclosure frequency and prepayments as well as reductions in recovery rates could lead to a downgrade of the notes.

The ratings of the 2013-1 and 2011-1 certificates are directly linked to the credit quality of OPIC, the guaranty provider. A change in Fitch's assessment of the credit quality of OPIC would automatically result in a change in the rating on the guaranteed notes. Additionally, any change in Fitch's view on the contract of guaranty, or deterioration on the credit quality of the counterparties, may result in the certificates being downgraded.

USE OF THIRD PARTY DUE DILIGENCE PURSUANT TO SEC RULE 17G -10

No third party due diligence was provided or reviewed in relation to this rating action

Additional information is available on www.fitchratings.com

FITCH RATINGS ANALYSTS

Surveillance Rating Analyst
Kevin Lopez
Director
+1 312 606 3317
Fitch Ratings, Inc.
70 West Madison Street
Chicago 60602

Committee Chairperson
Juan Pablo Gil
Senior Director
+56 2 2499 3306

MEDIA CONTACTS

Alyssa Castelli
New York
+1 212 908 0540
alyssa.castelli@thefitchgroup.com

Applicable Criteria

Latin America RMBS Rating Criteria (pub. 07 Dec 2017)

Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 23 Oct 2018)
Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 18 Apr 2019)
Single- and Multi-Name Credit-Linked Notes Rating Criteria (pub. 24 Apr 2019)
Global Structured Finance Rating Criteria (pub. 02 May 2019)

Related Research

La Hipotecaria El Salvadorian Mortgage Trust 2013-1 -- Appendix
La Hipotecaria El Salvadorian Mortgage Trust 2016-1 - Appendix

Additional Disclosures

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