

RATING ACTION COMMENTARY

Fitch Takes Rating Actions on La Hipotecaria's El Salvadorian Cross-Border Transactions

Fri 11 Feb, 2022 - 11:56 a. m. ET

Fitch Ratings - Chicago - 11 Feb 2022: Fitch Ratings has downgraded the ratings for the series A notes on La Hipotecaria Eleventh Mortgage-Backed Notes Trust, La Hipotecaria Thirteenth Mortgage-Backed Notes Trust, and La Hipotecaria Fifteenth Mortgage-Backed Notes Trust. The Rating Outlook on the notes is Stable following the downgrade. The rating actions follow the downgrade of El Salvador's Long-Term Foreign Currency Issuer Default Rating (IDR) to 'CCC' from 'B-' and its Country Ceiling (CC) to 'B-' from 'B'.

In addition, Fitch has affirmed the ratings for La Hipotecaria El Salvadorian Mortgage Trust 2013-1 certificates, La Hipotecaria El Salvadorian Mortgage Trust 2016-1 certificates, and La Hipotecaria Trust 2019-1 certificates at 'AAA' with a Negative Outlook and the Series B and C notes issued by La Hipotecaria Fifteenth Mortgage-Backed Notes Trust at 'B-/Stable' and 'CCC'/Stable, respectively.

RATING ACTIONS

ENTITY / DEBT ⚡

RATING ⚡

PRIOR ⚡

La Hipotecaria
Thirteenth Mortgage-
Backed Notes Trust

A PAL3008861A4

LT B-sf Rating Outlook Stable

Bsf Rating
Outlook
Negative

Downgrade

La Hipotecaria El
Salvadorian Mortgage
Trust 2013-1

Series 2013-1
Certificates
501716AA2

LT AAAsf Rating Outlook Negative

AAAsf Rating
Outlook
Negative

Affirmed

La Hipotecaria El
Salvadorian Mortgage
Trust 2016-1

2016-1 50346VAA7

LT AAAsf Rating Outlook Negative

AAAsf Rating
Outlook
Negative

Affirmed

La Hipotecaria Eleventh
Mortgage-Backed
Notes Trust

Series A Notes
PAL3005461A6

LT B-sf Rating Outlook Stable

Bsf Rating
Outlook
Negative

Downgrade

La Hipotecaria Trust
2019-1

Series 2019-1
Certificates

LT AAAsf Rating Outlook Negative

AAAsf Rating
Outlook
Negative

Affirmed

La Hipotecaria
Fifteenth Mortgage-
Backed Notes Trust

A	LT	B-sf Rating Outlook Stable	Bsf Rating Outlook Negative
		Downgrade	

B	LT	B-sf Rating Outlook Stable	B-sf Rating Outlook Stable
		Affirmed	

C	LT	CCCsf Rating Outlook Stable	CCCsf Rating Outlook Stable
		Affirmed	

[VIEW ADDITIONAL RATING DETAILS](#)

KEY RATING DRIVERS

Higher Stresses Applied Due to Coronavirus Pandemic

Fitch expects El Salvador's real GDP to rebound 5.5% in 2021 after contracting 7.9% in 2020. Measures to limit the spread of the coronavirus are less restrictive than in 2020, but Fitch continues to apply higher stress scenarios as described in "La Hipotecaria RMBS: Criteria Assumptions Updated Due to Pandemic Impacts" for loans originated by La Hipotecaria in El Salvador.

In the additional stress scenario analysis, the 'Bsf' representative pool weighted average foreclosure frequency (WAFF) for La Hipotecaria S.A. de C.V. (LHES) in El Salvador increased to 4.91% from 4.2% in the current assumptions. However, the additional stress scenario analysis does not envisage significant changes to the Structured Finance Rating Cap (level defined at 'BB-' for El Salvador) foreclosure frequency (FF) assumptions as they are sufficiently remote to withstand significant deterioration relative to historical performance and Fitch's expectations. Therefore, Fitch lowered the rating multiples.

Country of Assets Determines Maximum Achievable Ratings

On Feb. 9, 2022 Fitch downgraded El Salvador's IDR to 'CCC' from 'B-' and its CC to 'B-' from 'B'. According to Fitch's 'Structured Finance and Covered Bonds Country Risk Rating Criteria' the ratings of Structured Finance notes cannot exceed the CC of the country of the assets, unless the T&C risk is mitigated. While the series A notes of La Hipotecaria Eleventh Mortgage-Backed Notes Trust, La Hipotecaria Thirteenth Mortgage-Backed Notes Trust and La Hipotecaria Fifteenth Mortgage-Backed Notes Trust have 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 rating of El Salvador.

Frequency of Foreclosure Assumptions Affected by the Coronavirus Pandemic

La Hipotecaria Fifteenth Mortgage-Backed Notes Trust: To gauge the impact of the pandemic Fitch reviewed its FF parameter. Under Fitch's updated assumptions in a 'Bsf' scenario, the A note would need to support a WAFF of 14.0% and a WARR of 65.5%. Under a 'B-sf' scenario, the Series B notes would need to support a WAFF of 11.0% and a WARR of 70.1% and in the expected scenario for the Series C notes would need to support a WAFF of 5.3% and a WARR of 78.9%. These assumptions consider the main characteristics of the assets, where OLTV is 87.0%, the seasoning average 75 months and remaining term 275 months, WA current loan-to-value is 78.3% and the majority of performing borrowers (67.8%) pay through payroll deduction mechanism. The assumptions also consider a PAF of 0.7x considering the historical performance of the portfolio.

Transaction Performance Supports Assigned Ratings

La Hipotecaria Eleventh Mortgage-Backed Notes Trust: CE has increased during the last year due to the sequential nature of the structure. As of Sept. 30, 2021, CE has increased to approximately 45.1% up from 38.6% observed in September 2020 for the Series A notes. A few factors including stability in the excess spread, good asset performance, and servicer advances made by LHES on the amounts due from debtors on payment holidays has also helped to improve this metric.

The Series A notes also benefit from reserve accounts equivalent to six times its next interest payment. Considering the improvements explained above, the stability of delinquencies and the transaction structure, and the fact the series A notes are in their maximum achievable rating, Fitch did not run its ResiGlobal Model: LATAM nor its LATAM RMBS CF Model.

La Hipotecaria Thirteenth Mortgage-Backed Notes Trust: CE has increased during the last year due to the sequential nature of the structure. As of Sept. 30, 2021, CE has

increased to approximately 17.9% up from 16.4% observed in September 2020 for the Series A notes. A few factors including stability in the excess spread, good asset performance, and servicer advances made by LHES on the amounts due from debtors on payment holidays has also helped to improve this metric.

The Series A notes also benefit from reserve accounts equivalent to 1.0625% the outstanding balance of the series A notes, covering almost three times its next interest payment. Considering the improvements explained above, the stability of delinquencies and the transaction structure, and the fact the series A notes are in their maximum achievable rating, Fitch did not run its ResiGlobal Model: LATAM nor its LATAM RMBS CF Model.

La Hipotecaria Fifteenth Mortgage-Backed Notes Trust: CE has increased during the last year due to the sequential nature of the structure. As of Sept. 30, 2021, CE has increased to approximately 15.3% up from 13.8% observed in September 2020 for the Series A notes, 4.9% up from 3.5% observed in September 2020 for the Series B notes, and 2.3% up from 1.2% observed in September 2020 for the Series C notes.

A few factors including stability in the excess spread, good asset performance and servicer advances made by LHES on the amounts due from debtors on payment holidays has also helped to improve this metric. The series A notes and the series B notes also benefit from reserve accounts equivalent to three times their next interest payment in the form of a letter of credit.

La Hipotecaria S.A. de C.V. Experience Mitigate Operational Risk:

Pursuant to the servicer agreement, Grupo ASSA, S.A. (the primary servicer), which is rated 'BBB-/Outlook Stable by Fitch, has hired LHES (the sub-servicer) to be the servicer for the mortgages. Fitch has reviewed LHES's systems and procedures and is satisfied with its servicing capabilities. Additionally, Banco General S.A., which is rated 'BBB-/Stable by Fitch, 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.

Guarantor Credit Quality Supports Ratings: The ratings assigned to the La Hipotecaria El Salvadorian Mortgage Trust 2013-1, La Hipotecaria El Salvadorian Mortgage Trust 2016-1, and La Hipotecaria Trust 2019-1 certificates are commensurate with the credit quality of the guarantee provider. The credit quality of DFC is directly linked to the U.S. sovereign rating (AAA/F1+/Negative), as guarantees issued by, and obligations of, DFC are backed by the full faith and credit of the U.S. government, pursuant to the Foreign Assistance Act of 1969.

Reliance on DFC Guaranty: Fitch assumes the payment on the La Hipotecaria El Salvadorian Mortgage Trust 2013-1, La Hipotecaria El Salvadorian Mortgage Trust 2016-1, and La Hipotecaria Trust 2019-1 certificates will rely on the DFC guaranty. Through this guaranty, DFC 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.

Ample Liquidity in Place: The La Hipotecaria El Salvadorian Mortgage Trust 2013-1, La Hipotecaria El Salvadorian Mortgage Trust 2016-1, and La Hipotecaria Trust 2019-1 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, the certificates benefit from liquidity in the form of an interest reserve account or a letter of credit at the underlying note level. Fitch considers this sufficient to keep debt service current on the guaranteed certificates until funds under a claim of DFC are received.

RATING SENSITIVITIES

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

El Salvador: The ratings of La Hipotecaria Eleventh Mortgage-Backed Notes Trust Series A Notes, La Hipotecaria Thirteenth Mortgage-Backed Trust Series A Notes and La Hipotecaria Fifteenth Mortgage-Backed Notes Trust Series A Notes could be downgraded in case of a downgrade of El Salvador's CC. In addition, severe increases in foreclosure frequency as well as reductions in recovery rates could lead to a downgrade of the notes.

The ratings of La Hipotecaria Fifteenth Mortgage-Backed Notes Trust Series B and C Notes could be downgraded in case of a decrease of CE to a level, caused by a more than expected deterioration in asset quality.

DFC Guaranteed: In the case of La Hipotecaria El Salvadorian Mortgage Trust 2013-1 certificates, La Hipotecaria El Salvadorian Mortgage Trust 2016-1 certificates, and the La Hipotecaria Mortgage Trust 2019-1 notes, the rating assigned could be downgraded in the case of a downgrade on the U.S. sovereign rating.

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

El Salvador: The ratings of La Hipotecaria Eleventh Mortgage Backed Notes Trust Series A Notes, La Hipotecaria Thirteenth Mortgage-Backed Notes Trust Series A Notes and La Hipotecaria Fifteenth Mortgage Backed Notes Trust Series A Notes are currently

capped at El Salvador's CC level. These ratings could only be upgraded in case of an upgrade of El Salvador's CC.

The ratings of La Hipotecaria Fifteenth Mortgage-Backed Notes Trust Series B and C Notes could be upgraded in case of a future improvement of CE.

DFC Guaranteed: In the case of La Hipotecaria El Salvadorian Mortgage Trust 2013-1 certificates, La Hipotecaria El Salvadorian Mortgage Trust 2016-1 certificates, and the La Hipotecaria Mortgage Trust 2019-1 notes, the Rating Outlook could be revised to Stable if the U.S. sovereign ratings Outlook is revised to Stable from Negative.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Structured Finance transactions have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of seven 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 seven notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAAsf' to 'Dsf'. 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>.

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

Form ABS Due Diligence-15E was not provided to, or reviewed by, Fitch in relation to this rating action.

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 ratings of the La Hipotecaria Eleventh Mortgage-Backed Notes Trust Series A Notes, La Hipotecaria Thirteenth Mortgage-Backed Trust Series A Notes and La Hipotecaria Fifteenth Mortgage-Backed Notes Trust Series A & B Notes are driven by El Salvador's credit quality as measured by its Country Ceiling.

ESG CONSIDERATIONS

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.

FITCH RATINGS ANALYSTS

Richard Villareal

Associate Director

Surveillance Rating Analyst

+1 312 368 3127

richard.villareal@fitchratings.com

Fitch Ratings, Inc.

One North Wacker Drive Chicago, IL 60606

Maria Paula Moreno

Managing Director

Committee Chairperson

+57 601 484 6775

mariapaula.moreno@fitchratings.com

MEDIA CONTACTS

Eleis Brennan

New York

+1 646 582 3666

eleis.brennan@thefitchgroup.com

Sandro Scenga

New York

+1 212 908 0278

sandro.scenga@thefitchgroup.com

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APPLICABLE CRITERIA

[Single- and Multi-Name Credit-Linked Notes Rating Criteria \(pub. 12 Feb 2021\)](#)
(including rating assumption sensitivity)

[Global Structured Finance Rating Criteria \(pub. 26 Oct 2021\)](#) (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 \(pub. 04 Nov 2021\)](#)

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

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[La Hipotecaria Fifteenth Mortgage-Backed Notes Trust - Appendix](#)

[La Hipotecaria El Salvadorian Mortgage Trust 2013-1 -- Appendix](#)

[La Hipotecaria El Salvadorian Mortgage Trust 2016-1 - Appendix](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

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ENDORSEMENT STATUS

La Hipotecaria El Salvadorian Mortgage Trust 2013-1	EU Endorsed, UK Endorsed
La Hipotecaria El Salvadorian Mortgage Trust 2016-1	EU Endorsed, UK Endorsed
La Hipotecaria Eleventh Mortgage-Backed Notes Trust	EU Endorsed, UK Endorsed
La Hipotecaria Fifteenth Mortgage-Backed Notes Trust	EU Endorsed, UK Endorsed
La Hipotecaria Thirteenth Mortgage-Backed Notes Trust	EU Endorsed, UK Endorsed
La Hipotecaria Trust 2019-1	EU Endorsed, UK Endorsed

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Structured Finance: Structured Credit Structured Finance Structured Finance: RMBS

Latin America Central America El Salvador Panama
