



Fitch Downgrades 11th & 13th Mtge-Backed Notes Trust's Series A Notes to 'B-sf'; Outlook Negative

Fitch Ratings-Chicago-20 April 2017: Fitch Ratings has downgraded the following notes:

Eleventh Mortgage-Backed Notes Trust

--\$37.8 million series A senior notes to 'B-sf' from 'BB-sf'; Outlook Negative.

La Hipotecaria Thirteenth Mortgage-Backed Notes Trust

--\$39.6 million series A senior notes to 'B-sf' from 'BB-sf'; Outlook Negative.

KEY RATING DRIVERS

The rating action reflects the recent downgrades of El Salvador's Long-Term Foreign Currency Issuer Default Rating (IDR) to 'CCC' from 'B' and Country Ceiling to 'B-' from 'BB-'.

According to Fitch's 'Criteria for Country Risk in Global Structured Finance and Covered Bonds' (September 2016), the ratings for structured finance notes cannot exceed the Country Ceiling 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 Foreign Currency IDR, the rating remains constrained by the country ceiling and ultimately linked to the ratings of El Salvador.

The transactions contain some liquidity to mitigate potential transfer risk, but these levels are not sufficient to provide significant rating benefit to breach the country ceiling. Additionally, Fitch believes the macroeconomic environment to be more volatile as the sovereign rating levels are decreased. When rating a transaction above the IDR of a country the transaction must have sufficient credit enhancement to withstand an increase in risk within the macroeconomic environment.

However, Fitch has observed that the performance of the main risk variables (delinquencies, prepayments, default and recoveries) within the underlying portfolios have remained fairly stable, continuing to perform better than Fitch's initial expectations. The transactions were stressed using higher than 5.5x historical default rate, which is sufficient to go up to the country ceiling.

The Negative Outlook on the series A notes reflects the current position on El Salvador. The intensified political polarization could make it difficult for the government to secure approval for additional long-term external borrowing necessary to bridge 2017 financing needs, highlighting the increased risks for default in its sovereign debt, which at the end could affect the country ceiling level.

RATING SENSITIVITIES

The ratings of the series A notes for both transactions are sensitive to changes in the credit quality of El Salvador and in particular its country ceiling. In addition, special considerations could be considered for countries rated 'CCC' or below, because country risk might vary significantly and would be based on specific factors.

In addition, severe increases in foreclosure frequency and prepayments as well as reductions in recovery rates could lead to a downgrade of the notes.

DUE DILIGENCE USAGE

No third-party due diligence was provided to or reviewed by Fitch in relation to this rating action.

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Sources of Information:

Fitch has checked the consistency and plausibility of the information published by La Hipotecaria and no material discrepancies were noted that would affect Fitch's rating analysis.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Criteria for Country Risk in Global Structured Finance and Covered Bonds (pub. 26 Sep 2016)

(<https://www.fitchratings.com/site/re/881269>)

Global Structured Finance Rating Criteria (pub. 27 Jun 2016) (<https://www.fitchratings.com/site/re/883130>)

Latin America RMBS Rating Criteria (pub. 17 Feb 2017) (<https://www.fitchratings.com/site/re/894083>)

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 20 Mar 2017)

(<https://www.fitchratings.com/site/re/894432>)

Related Research

La Hipotecaria El Salvadorian Mortgage Trust 2013-1 -- Appendix (<https://www.fitchratings.com/site/re/707244>)

La Hipotecaria El Salvadorian Mortgage Trust 2016-1 - Appendix (<https://www.fitchratings.com/site/re/888139>)

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