

RATING ACTION COMMENTARY

Fitch Affirms La Hipotecaria's Panamanian RMBS and Underlying U.S. Transactions

Wed 12 Oct, 2022 - 2:08 p. m. ET

Fitch Ratings - São Paulo - 12 Oct 2022: Fitch Ratings has affirmed La Hipotecaria's Panamanian RMBS and underlying U.S. transactions.

Fitch has affirmed all notes issued by La Hipotecaria Panamanian Mortgage Trust 2010-1, La Hipotecaria Mortgage Trust 2019-1, La Hipotecaria Mortgage Trust 2019-2, La Hipotecaria Panamanian Mortgage Trust 2014-1, La Hipotecaria Mortgage Trust 2021-1, La Hipotecaria Tenth Mortgage-Backed Notes Trust, La Hipotecaria Twelfth Mortgage-Backed Notes Trust, La Hipotecaria Fourteenth Mortgage-Backed Notes Trust and La Hipotecaria Sixteenth Mortgage-Backed Notes Trust.

RATING ACTIONS

ENTITY / DEBT ⚡

RATING ⚡

PRIOR ⚡

La Hipotecaria Trust
2019-2



La Hipotecaria Tenth
Mortgage Trust Series
A Notes

Interest Only	LT	A-sf Rating Outlook Stable	A-sf Rating Outlook Stable
	Affirmed		
Series A	LT	A-sf Rating Outlook Stable	A-sf Rating Outlook Stable
	Affirmed		
La Hipotecaria Panamanian Mortgage Trust 2021-1			
Series 2021-1 Certificates	LT	BBB-sf Rating Outlook Stable	BBB-sf Rating Outlook Stable
	Affirmed		
La Hipotecaria Panamanian Mortgage Trust 2010-1			
2010-1 Certificates	LT	AAAsf Rating Outlook Stable	AAAsf Rating Outlook Stable
	Affirmed		
2010-1 Certificates	ULT	A-sf Rating Outlook Stable	A-sf Rating Outlook Stable
	Affirmed		

[VIEW ADDITIONAL RATING DETAILS](#)

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described in "Fitch Ratings Revises Macroeconomic Adjustment for La Hipotecaria RMBS in Panama" (which can be viewed at www.fitchratings.com) considering the end of forbearance programs in July 2021 and underperformance of loans that were modified until then.

In the additional stress scenario analysis, the 'Bsf' representative pool weighted average foreclosure frequency (WAFF) for Banco La Hipotecaria, S.A. (BLH) in Panama increased to 8.8% from 8.2% in the current assumption. As adjustments were maintained at 1.0x at A(cat), given that Fitch does not envisage changes to the SF Rating Cap (Asf), rating multiples were compressed.

Operational Risk Mitigated (Latin America RMBS Rating Criteria): Grupo ASSA, S.A. (BBB-/Stable, primary servicer) has hired BLH (the sub-servicer) to be the servicer for the mortgages. Fitch has reviewed BLH systems and procedures and is satisfied with its servicing capabilities. 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.

La Hipotecaria Tenth Mortgage Trust Series A Notes

Country of Assets Determine Maximum Achievable Ratings: Panama's Issuer Default Rating (IDR) is 'BBB-/Stable Rating Outlook and its Country Ceiling is 'A-' (as of Jan. 28, 2022). According to Fitch's 'Structured Finance and Covered Bonds Country Risk Rating Criteria' the ratings of 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 transactions 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 Country Ceiling and ultimately linked to the ratings of Panama.

Frequency of Foreclosure Assumptions Similar to Previous Review: Asset characteristics have been stable throughout the years. In an 'A-sf' scenario, the A note and the interest-only note would need to support a WAFF of 36.0% and a weighted average recovery rate (WARR) of 91.6%, compared to a WAFF of 33.5% and a WARR of 90.8% from last annual review, in November 2021.

These assumptions consider the main characteristics of the assets, where original loan-

Transaction Performance Supports Assigned Ratings: Credit Enhancement (CE) has increased during the last year due to the sequential nature of the structure. As of July 2022, CE has increased to approximately 57.5% up from 52.9% observed in Sept. 2021. CE continues to build due to the sequential nature of the transaction structure. The transaction also benefits from a reserve account of 1% of the outstanding balance of the series A notes, which is sufficient to cover almost three months of senior expenses and interest payment on series A and interest only.

La Hipotecaria Twelfth Mortgage-Backed Notes Trust

Country of Assets and Counterparty Determine Maximum Achievable Ratings: The rating is constrained by Panama's sovereign rating (BBB-/Stable) due to the portfolio's exposure to the sovereign. Over 30% of the residential mortgages were granted to public sector employees and about 69% of the pool benefits from Panama's Preferential Treatment Law, whereby the government provides lenders a subsidy, through fiscal credits, for originating mortgages below market interest rates for a definite period of 10 or 15 years. Also, as the reserve account is in the form of a letter of credit provided by Banco General (BBB-/Stable), the transaction is also exposed to this entity.

Frequency of Foreclosure Assumptions Affected by the Macroeconomic Adjustments: To gauge the impact of the macroeconomic underperformance, Fitch reviewed its FF parameter. Under Fitch's updated assumptions in an 'BBB-sf' scenario, the A note would need to support a WAFF of 21.5% and a WARR of 90.5%, compared to a WAFF of 19.5% and a WARR of 89.8% from last annual review, in November 2021.

These assumptions consider the main characteristics of the assets, where OLTV is 90.8%, the seasoning average 134 months and remaining term 235 months, WA current LTV is 63.4% and the majority of performing borrowers (62.8%) pay through payroll deduction mechanism. The assumptions also consider a Performance Adjustment Factor of 0.7x considering the historical performance of the portfolio.

Robust Credit Enhancement Supports Assigned Ratings: CE has been slightly impacted by the increase in defaults, even though it is still at robust levels. As of July 2022, CE has decreased to 20.6% down from 21.3% observed in Sept. 2021. Fitch expect the CE to build up due to the sequential nature of the transaction structure. The transaction also benefits from a reserve account of 1% of the outstanding balance of the series A notes in



Country of Assets and Counterparty Determine Maximum Achievable Ratings: The rating of the series A notes is constrained by Panama's sovereign rating (BBB-/Stable) due to the portfolio's exposure to the sovereign. Around a quarter of the residential mortgages were granted to public sector employees. Also, as the reserve account is in the form of a letter of credit provided by Banco General, and this counterparty has not been able to be replaced according to transaction documents, the series A notes is also exposed to this entity.

Frequency of Foreclosure Assumptions Affected by the Macroeconomic Adjustments: To gauge the impact of the macroeconomic underperformance, Fitch reviewed its FF parameter. Under Fitch's updated assumptions in an 'BBB-sf' scenario, the A note would need to support a WAFF 19.9% and a WARR of 81.6%, compared to a WAFF 17.7% and a WARR of 88.0% from last annual review, in November 2021. Under Fitch's updated assumptions in a 'B+sf' scenario, the Series B notes would need to support a WAFF of 12.1% and a WARR of 89.0%, compared to a WAFF of 10.4% and a WARR of 89.6% from last annual review. For the expected scenario, the Series C notes would need to support a WAFF of 8.8% and a WARR of 92.0%, compared to a WAFF of 7.4% and a WARR of 92.8% from last annual review.

These assumptions consider the main characteristics of the assets, where OLTV is 84.2%, the seasoning average 123 months and remaining term 235 months, WA current LTV is 65.3% and the majority of performing borrowers (62.8%) pay through payroll deduction mechanism. The assumptions also consider a Performance Adjustment Factor of 0.7x considering the historical performance of the portfolio.

Transaction Performance Supports Assigned Ratings: CE has increased during the last year due to the sequential nature of the structure. As of July 2022, CE has increased to approximately 11.1% up from 10.4% observed in Sept. 2021 for the Series A notes, to 3.4% from 3.1% for the Series B notes, and for series C it increased to 0.8% from 0.7%. The loan modifications of a third of the portfolio in 2021 produced a slower amortization speed, affecting as a consequence the payment of the most junior tranche.

The series A notes also benefits from a reserve account equivalent to 3x its next interest payment in the form of a letter of credit.

La Hipotecaria Sixteenth Mortgage-Backed Notes Trust



employees and almost 100% of the pool benefits from an interest rate subsidy provided by the Republic of Panama.

Frequency of Foreclosure Assumptions Affected by the Macroeconomic Adjustments:

To gauge the impact of the macroeconomic underperformance, Fitch reviewed its FF parameter. Under Fitch's updated assumptions in an 'BBB-sf' scenario, the A note would need to support a WAFF of 15.5% and a WARR of 57.3%, compared to a WAFF of 14.5% and a WARR of 56.4% from the rating assignment. At the expected scenario, the WAFF was updated to 6.0%, from 5.6%, and the WARR changed to 74.4%, from 73.6%. These assumptions consider the main characteristics of the assets, where OLTV is 90.3%, the seasoning average 59 months and remaining term 302 months, WA current LTV is 77.0% and the majority of performing borrowers (86.5%) pay through payroll deduction mechanism.

Transaction Performance Supports Assigned Ratings: The series A notes benefit from a sequential pay structure wherein target amortization payments for this series are senior to interest and principal payments on the series B and C notes. Series A notes also benefit from CE of 8.8%, an interest reserve account equivalent to 3x its next interest payment and excess spread, which is still consistent to the assigned ratings.

Series B notes has a CE of -0.6% and excess spread, while series C notes benefit from excess spread, although none of them are able to surpass the WAFF and WARR defined at the expected level by Fitch. The decrease in the credit enhancement in the first months is expected, especially in transactions in which 100% of the portfolio contains subsidies and fiscal credits can delay part of the expected inflows. We expect that CE will converge to initial levels in the near future.

CLN Transactions

La Hipotecaria Panamanian Mortgage Trust 2010-1, 2014-1 A-1, La Hipotecaria Trust 2019-1

DFC's Credit Quality Supports Rating: The rating assigned to the La Hipotecaria Panamanian Mortgage Trust 2010-1, La Hipotecaria Panamanian Mortgage Trust 2014-1 A-1, and La Hipotecaria Trust 2019-1 certificates is commensurate with the credit quality of the guarantee provider. The credit quality of U.S. International Development



credit quality of the series A notes of La Hipotecaria's Tenth Mortgage-Backed Notes Trust.

Reliance on DFC Guaranty: Fitch assumes the payment on the La Hipotecaria Panamanian Mortgage Trust 2010-1, La Hipotecaria Panamanian Mortgage Trust 2014-1 A-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: The La Hipotecaria Panamanian Mortgage Trust 2010-1, La Hipotecaria Panamanian Mortgage Trust 2014-1 A-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.

La Hipotecaria Panamanian Mortgage Trust 2014-1 A-2 Certificates, La Hipotecaria Trust 2019-2, La Hipotecaria Panamanian Mortgage Trust 2021-1

Credit Quality of the Underlying Notes Support Ratings: The 2014-1 A-2, 2019-2 and 2021-1 certificates are a repackaging of the BLH 12th, BLH 14th and BLH 16th Series A notes, respectively, therefore the rating assigned to the certificates is commensurate with the credit rating of the series A notes of each transaction, which carry a rating of 'BBB-sf'/Stable. The interest received from the underlying notes is expected to be sufficient to cover the expenses and coupon payments due for the certificates.

RATING SENSITIVITIES

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

The ratings of the La Hipotecaria Tenth Mortgage Trust Series A notes and interest-only notes, La Hipotecaria Twelfth Mortgage-Backed Notes Trust Series A notes, La Hipotecaria Fourteenth Mortgage-Backed Notes Trust Series A Notes and La Hipotecaria Sixteenth Mortgage-Backed Notes Trust Series A Notes are sensitive to changes in the credit quality of Panama.



Banco General as the Letter of Credit provider. Finally, severe increases in foreclosure frequency as well as reductions in recovery rates could lead to a downgrade of the notes.

In addition, the ratings of the La Hipotecaria Twelfth Mortgage-Backed Notes Trust Series A Notes and La Hipotecaria Fourteenth Mortgage-Backed Notes Trust Series A Notes are sensitive to changes in the credit quality of Banco General as the Letter of Credit provider.

The series B and C of La Hipotecaria Fourteenth Mortgage-Backed Notes Trust and the series B of La Hipotecaria Sixteenth Mortgage-Backed Notes can be downgraded if there is a relevant increase in foreclosure frequency as well as reductions in recovery rates. For series C of La Hipotecaria Sixteenth Mortgage-Backed Notes Trust, rating can be downgraded if the C notes is irrevocably impaired such that it is not expected to pay interest and/or principal in full in accordance with the terms of the obligation's documentation during the life of the transaction. This assessment would be consistent to a C category.

DFC Guaranteed Notes: In the case of La Hipotecaria Panamanian Mortgage Trust 2010-1, La Hipotecaria Panamanian Mortgage Trust 2014-1-A-1 Tranche 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.

The unenhanced rating of the La Hipotecaria Panamanian Mortgage Trust 2010-1 is sensitive to changes in the credit quality of the La Hipotecaria Tenth Mortgage Trust Series A Notes, hence, a negative rating action of the series A notes would trigger a negative rating action of the unenhanced rating on the notes in the same proportion.

The La Hipotecaria Panamanian Mortgage Trust 2014-1 A-2 certificates' ratings are sensitive to changes in the credit quality of the La Hipotecaria Twelfth Mortgage-Backed Notes Trust Series A notes. If La Hipotecaria Twelfth Mortgage-Backed Notes Trust Series A notes are downgraded, that could lead to a downgrade of the certificates.

The La Hipotecaria Mortgage Trust 2019-2 certificates' ratings are sensitive to changes in the credit quality of the La Hipotecaria Fourteenth Mortgage-Backed Notes Trust Series A notes. If La Hipotecaria Fourteenth Mortgage-Backed Notes Trust Series A



Backed Notes Trust series A notes. If La Hipotecaria Sixteenth Mortgage-Backed Notes Trust Series A notes are upgraded, that could lead to an upgrade of the certificates.

Fitch has revised global economic outlook forecasts as a result of the Ukraine War and related economic sanctions. Downside risks have increased and we have published an assessment of the potential rating and asset performance impact of a plausible, but worse-than-expected, adverse stagflation scenario on Fitch's major SF and CVB sub-sectors (What a Stagflation Scenario Would Mean for Global Structured Finance).

Fitch expects Panamanian RMBS portfolio in the assumed adverse scenario to experience a "Mild to Modest Impact", indicating asset performance to be modestly negatively affected relative to current expectations. Downside risks have increased and a slowing home price growth, lower GDP and higher inflation could pressure mortgage performance. However, ratings are expected to remain resilient given portfolio seasoning, strong structural features and high levels of credit enhancement, having a "Virtually No Impact" assessment.

For the CLN transactions, the impacts of the Ukraine War are incorporated into Fitch's view of the sovereign's credit quality, and may indirectly affect the transaction's rating.

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

The ratings of the La Hipotecaria Tenth Mortgage-Backed Notes Trust Series A Notes & Interest-Only Notes, La Hipotecaria Twelfth Mortgage-Backed Notes Trust Series A Notes, La Hipotecaria Fourteenth Mortgage-Backed Notes Trust Series A Notes and La Hipotecaria Sixteenth Mortgage-Backed Notes Trust Series A Notes are sensitive to changes in the credit quality of Panama. An upgrade of Panama's ratings, and for BLH Tenth its Country Ceiling, could lead to an upgrade on the notes.

The ratings of La Hipotecaria Fourteenth Mortgage-Backed Notes Trust Series B and C Notes and La Hipotecaria Sixteenth 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 Panamanian Mortgage Trust 2010-1, La Hipotecaria Panamanian Mortgage Trust 2014-1-A-1 Tranche and the La Hipotecaria Mortgage Trust 2019-1 notes, the ratings are at maximum achievable level.



trigger a positive rating action of the unenhanced rating on the notes in the same proportion.

The La Hipotecaria Panamanian Mortgage Trust 2014-1 A-2 certificates' ratings are sensitive to changes in the credit quality of the La Hipotecaria Twelfth Mortgage-Backed Notes Trust Series A notes. If La Hipotecaria Twelfth Mortgage-Backed Notes Trust Series A Notes are upgraded, that could lead to an upgrade of the certificates.

The Hipotecaria Mortgage Trust 2019-2 certificates' ratings are sensitive to changes in the credit quality of the La Hipotecaria Fourteenth Mortgage-Backed Notes Trust Series A notes. If La Hipotecaria Fourteenth Mortgage-Backed Notes Trust Series A notes are upgraded, that could lead to an upgrade on the certificates.

The La Hipotecaria Panamanian Mortgage Trust 2021-1 certificates' ratings are sensitive to changes in the credit quality of the La Hipotecaria Sixteenth Mortgage-Backed Notes Trust Series A notes. If La Hipotecaria Sixteenth Mortgage-Backed Notes Trust Series A notes are upgraded, that could lead to an upgrade of the certificates.

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

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--The LT rating of the 2010-1 certificates issued by La Hipotecaria Panamanian Mortgage Trust 2010-1 is directly linked to the credit quality of the DFC and the ULT rating of the 2010-1 certificates issued by La Hipotecaria Panamanian Mortgage Trust 2010-1 is directly linked to the rating of the Series A Notes issued by La Hipotecaria Tenth Mortgage Trust.

--The rating of the A-1 certificates issued by La Hipotecaria Panamanian Mortgage Trust 2014-1 is directly linked to the credit quality of the DFC and the rating of the A-2 certificates issued by La Hipotecaria Panamanian Mortgage Trust 2014-1 is directly linked to the rating of the Series A Notes issued by La Hipotecaria Twelfth Mortgage-Backed Notes Trust.

--The rating of the 2019-1 certificates issued by La Hipotecaria Trust 2019-1 is directly linked to the credit quality of the DFC.

--The rating of the 2019-2 certificates issued by La Hipotecaria Trust 2019-2 is directly linked to the rating of the Series A Notes issued by La Hipotecaria Fourteenth Mortgage-Backed Notes Trust.

--The rating of the 2021-1 certificates issued by La Hipotecaria Trust 2021-1 is directly linked to the rating of the Series A Notes issued by La Hipotecaria Sixteenth Mortgage-Backed Notes Trust.

-- The ratings of the La Hipotecaria Tenth Mortgage Trust Series A and Interest Only Note are driven by Panama's credit quality as measured by its Country Ceiling.

-- The ratings of the La Hipotecaria Twelfth Mortgage-Backed Notes Trust A Notes, La Hipotecaria Fourteenth Mortgage-Backed Notes Trust A Notes and La Hipotecaria Sixteenth Mortgage-Backed Notes Trust A Notes are driven by both BG's and Panama's credit quality as measured by their LT FC IDR.

REPRESENTATIONS, WARRANTIES AND ENFORCEMENT MECHANISMS

A description of the transaction's representations, warranties and enforcement mechanisms (RW&Es) that are disclosed in the offering document and which relate to the underlying asset pool is available by clicking the link to the Appendix. The appendix also contains a comparison of these RW&Es to those Fitch considers typical for the



La Hipotecaria Tenth Mortgage-Backed Notes Trust Series A Notes has a Human Rights, Community Relations, Access & Affordability of '4' for its exposure to accessibility to affordable housing, which in combination with other factors, impacts the rating.

La Hipotecaria Twelfth Mortgage-Backed Notes Trust has a Human Rights, Community Relations, Access & Affordability score of '4' for its exposure to accessibility to affordable housing, which in combination with other factors, impacts the rating.

La Hipotecaria Fourteenth Mortgage-Backed Notes Trust has a Human Rights, Community Relations, Access & Affordability score of '4' for its exposure to accessibility to affordable housing, which in combination with other factors, impacts the rating.

La Hipotecaria Sixteenth Mortgage-Backed Notes Trust has a Human Rights, Community Relations, Access & Affordability score of '4' for its exposure to accessibility to affordable housing, which in combination with other factors, impacts the rating.

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

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

Mariana Zuluaga

Director

Secondary Rating Analyst

+57 601 241 3245

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+56 2 2499 3306

juanpablo.gillira@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

[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)

[Latin America RMBS Rating Criteria \(pub. 07 Apr 2022\)](#) (including rating assumption sensitivity)

[Structured Finance and Covered Bonds Country Risk Rating Criteria \(pub. 15 Jul 2022\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub. 29 Jul 2022\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

[LATAM RMBS CF Model, v1.6.7 \(1\)](#)



ADDITIONAL DISCLOSURES

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

[Solicitation Status](#)

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ENDORSEMENT STATUS

La Hipotecaria Fourteenth Mortgage-Backed Notes Trust	EU Endorsed, UK Endorsed
La Hipotecaria Panamanian Mortgage Trust 2010-1	EU Endorsed, UK Endorsed
La Hipotecaria Panamanian Mortgage Trust 2014-1	EU Endorsed, UK Endorsed
La Hipotecaria Panamanian Mortgage Trust 2021-1	EU Endorsed, UK Endorsed
La Hipotecaria Sixteenth Mortgage-Backed Notes Trust	EU Endorsed, UK Endorsed
La Hipotecaria Tenth Mortgage Trust Series A Notes	EU Endorsed, UK Endorsed
La Hipotecaria Trust 2019-1	EU Endorsed, UK Endorsed
La Hipotecaria Trust 2019-2	EU Endorsed, UK Endorsed
La Hipotecaria Twelfth Mortgage-Backed Notes Trust	EU Endorsed, UK Endorsed

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