Fitch Rates Banco La Hipotecaria's Series 2019-1 Mortgage Covered Bonds 'BBB'; Outlook Stable

Fitch Ratings - Rio de Janeiro - 30 May 2019: Fitch Ratings has assigned a 'BBB' rating to Banco La Hipotecaria, S.A.'s (BLH; BB+/Stable) Series 2019-1 USD30 million mortgage covered bonds. The Rating Outlook is Stable.

This new issuance brings BLH's total outstanding covered bonds to USD41 million. The fixed-rate bonds are due in November 2022, with a 4.75% coupon and benefit from a 12-month principal maturity extension period and three months of interest protection.

RATING ACTIONS

ENTITY/DEBT	RATING		
Banco La Hipotecaria, S.A.			
senior secured, Mortgage Covered Bonds, Mortgage Covered Bonds	LT BBB New Rating		

KEY RATING DRIVERS

BLH's 'BBB' mortgage covered bond rating is constrained by Panama's sovereign Long-Term Issuer Default Rating (IDR) of 'BBB'/Stable due to the cover pool's exposure to the sovereign. About a third of the residential mortgages are granted to civil servants, and more than 70% have subsidies given by the government of the Republic of Panama. Also, the account bank should carry the greater of a 'BBB' rating and the sovereign rating of Panama.

The Stable Outlook reflects the sovereign's Outlook, a two-notch buffer against the downgrade of the issuer's IDR and the current account bank rating (BBB+/Stable). The program documents state that if the account bank is downgraded below the minimum threshold of the greater of a 'BBB' rating and the sovereign rating of Panama, remedial actions would be triggered within 60 calendar days.

The rating is based on BLH's 'BB+' Long-Term IDR and a recovery uplift of two notches (of the three assigned to the program). No further uplift is given despite assigning a payment continuity uplift (PCU) of one notch and a recovery uplift of three notches, which would translate into a total four-notch uplift above the issuer's Long-Term IDR. The mentioned constraint limits the full uplift to two notches of recoveries, and, as such, Fitch does not test for timely payments.

The 'BBB' breakeven overcollateralization (OC) of 12% (equivalent to a breakeven asset percentage [AP] of 89.5%) is based on a 'BBB' stressed credit loss of 11.7% as the program is rated based on recoveries given default analysis.

Fitch has carried forward the results of its previous asset analysis as the consolidated pool characteristics backing the covered bond have not changed materially since the last rating action in December 2018 and the relied-upon OC is more than twice the breakeven OC for the rating. The 25% contractual OC (80% AP) provides more protection than the 11.7% 'BBB' stressed credit loss.

UPLIFTS
The zero-notch IDR uplift reflects that there is no advanced bank resolution framework in Panama. Even if there were one in place, Fitch would not have sufficient clarity on the bank's ability to maintain payments on the bonds in a resolution scenario, as there is no lender of last resort in Panama.

In terms of PCU, despite the 12-month principal extension and three-month liquidity reserve for interest protection, Fitch has assigned a one-notch PCU. Fitch believes that once the liquidity reserve has been used for one interest payment in a jump-to-default event of the issuer 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. Fitch also sees a potential interest rate mismatch between assets and liabilities.

These risks are partly mitigated by the portfolio ratio requirements, especially the "pool net weighted average interest rate ratio" and the "pool gross weighted average interest rate ratio" and by the backup servicer and account bank being very familiar with BLH's systems, facilitating an immediate takeover in the event of an issuer default. Also, while difficult, there is a possibility for some asset sales. Fitch thus expects some level of protection for timely interest payment.

A three-notch uplift for recoveries reflects that the contractual OC provides more protection than the 'BBB' stressed credit loss.

RATING SENSITIVITIES

BLH's covered bond rating of 'BBB' would be vulnerable to a downgrade if the relied-upon OC falls below the 'BBB' breakeven OC of 12%, if the bank's Long-Term IDR falls below 'BB-', or if the total number of notches represented by the PCU and the recovery uplift is reduced to one or less. An upgrade of the rating of BLH's covered bonds would be possible if Panama's sovereign rating is upgraded. Ratings are always subject to the relied-upon OC being sufficient to cover Fitch's break-even OC for a given rating level.

Fitch's breakeven AP for the covered bond rating will be affected, among other factors, by the profile of the cover assets relative to outstanding covered bonds, which can change over time, even in the absence of new issuance. Therefore the breakeven AP to maintain the covered bond rating cannot be assumed to remain stable.

Date of Relevant Committee

30-Nov-2018

SOURCES OF INFORMATION

The source of information used to assess these ratings was BLH.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Link to Banco La Hipotecaria LT IDR.

Additional information is available on www.fitchratings.com

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Applicable Criteria

Latin America RMBS Rating Criteria (pub. 07 Dec 2017)
Structured Finance and Covered Bonds Counterparty Rating Criteria - Effective from 1 August 2018 to 18 April 2019 (pub. 01 Aug 2018)
Bank Rating Criteria (pub. 12 Oct 2018)
Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 23 Oct 2018)
Covered Bonds Rating Criteria - Effective from 8 October 2018 to 11 January 2019 (pub. 08 Oct 2018)

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