Up to EUR 15bn in Spanish NPL securitisation could materialise in 2019

The securitisation of a portfolio of non-performing loans serviced by HipoGes, the KKR-owned third-party servicer, is the first of an expected series of Spanish NPL ABS. An area to watch as this market evolves will be the impact of Spain's challenging legal environment.

"The tail of the deleveraging process for Spanish banks could see EUR 10bn-EUR 15bn of non-performing loan securitisation and private sales in 2019," said Paula Lichtensztein, senior representative in Scope Ratings' structured finance team, in the wake of Spain's first NPL ABS transaction.

The transaction currently in the market is a second transfer. It consists of loans originated by units of Abanca Corporación Bancaria but subsequently sold. As such, Abanca is not involved in the deal; a static cash securitisation split into four classes of notes with fully sequential principal amortisation:

- A EUR 170m senior class A, rated (P)BBB- $_{SF}$, indicated at 3mE+200bp
- A EUR 30m mezzanine class B, rated (P)B-$_{SF}$, indicated at 3mE+600bp
- A EUR 15m junior class J, not rated, indicated at 3mE+1,200bp
- A EUR 16m equity class Z, not rated, with a variable return

The final maturity of classes A, B and J is 31 October 2039. The portfolio underpinning the deal consists of EUR 494.7m in NPLs (outstanding balance) plus real-estate-owned properties (REO) valued by third-party appraisal at EUR 40.3m.

The underlying pool consists predominantly of senior secured loans (94%), with 1% of junior secured loans and 5% of unsecured loans and secured residual exposures. The loans were extended to individuals (66%) and SMEs (34%). The secured loans are backed by residential and non-residential properties including land (68% and 32% of the total third-party appraisal value, respectively). See full rating report here.

Scope had pointed to the emergence of the first Spanish NPL and REO ABS in a report in March "Spanish NPLs – five key themes for 2019"). That report noted that hedge funds and private equity firms would drive securitisation activity, whereas financial institutions still prefer direct portfolio sales. From a market perspective, securitisation can improve transparency; since during the rating process, investors, rating agencies, auditing firms and law firms are able to scrutinise the capabilities of originators and servicers as well as the quality of underlying portfolios.

But when it comes to Spain, however, there are potential pitfalls. "One area that will be critical in determining the success of Spanish NPL ABS will be the impact of recent legal developments in Spain as this could impact the timing of expected collections. This is one of the main uncertainties in this [first] transaction," said Lichtensztein.

Legal uncertainty in Spain is higher than in other EU countries. "The average length of foreclosure proceedings in Spain has almost doubled in recent years due to increased litigation surrounding the abusive nature of certain early-termination mortgage clauses. The Spanish Supreme Court also recently ruled that secured creditors can no longer demand default interest after insolvency proceedings have been opened," Lichtensztein continued.

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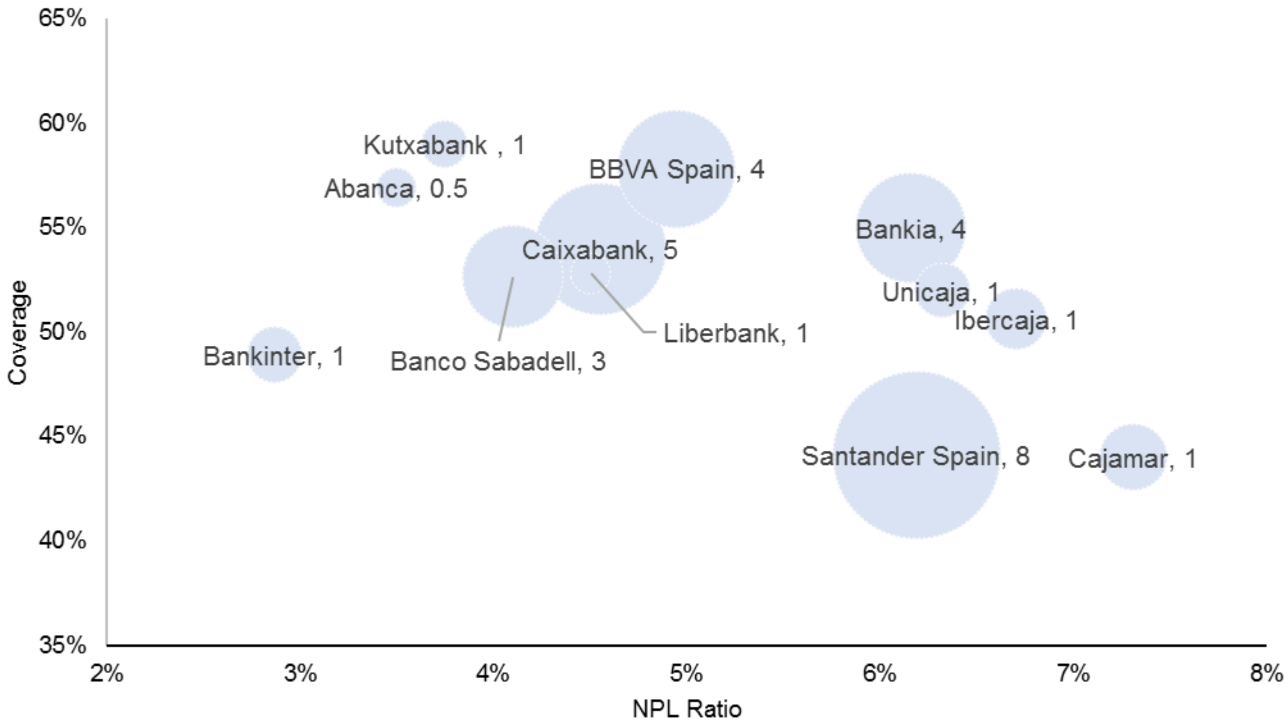
On the plus side, the Spanish residential real-estate market has seen a stable recovery in recent years, making Spain one of the most favoured destinations for international real estate investors. This is positive for these types of transactions.

From a banking sector perspective, Marco Troiano, deputy head of the financial institutions team at Scope, is not expecting large portfolio transactions from the Spanish banks this year. “2018 was the year of the jumbo transactions; it will probably be smaller transactions from now on, not least because outstanding stocks are lower,” he said.

This reflects a material improvement in Spanish bank’s credit fundamentals over recent years. “The Spanish banking sector is close to cyclical peak profitability, Troiano continued. “The banks are well capitalised, with CET1 ratios converging around the 12% mark, and legacy asset-quality problems are largely dealt with, albeit a few residual pockets of asset-quality risks remain.

“Gross NPA ratios are clustered in the 5% to 10% range and are declining rapidly with reassuring coverage levels. Even at the upper end of that range, a 10% NPA ratio is manageable in a strongly-growing economy.”

Figure 1: Spanish NPLs and coverage – size of bubble equates to net NPL portfolio in EUR bn



Source: Scope Ratings

At a sector level, the real-estate boom and bust brought about a significant process of consolidation, which is likely to shape competitive dynamics for many years to come. There is still some room for consolidation, among regional banks and perhaps second-tier players.

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