

Cédulas Hipotecarias: Spanish covered mortgage bond market

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- **Introduction**
- **Supervisory and legal framework**
- **CH market**
- **CNMV's verification process**
- **CH main characteristic**
- **High protection for CH holders**
- **CH risks**
- **Future developments**

Boom of the Spanish housing market since 1995:

- Increase in housing prices
- Good economic environment
- Preference for ownership vs renting

Strong growth of Spanish mortgage market:

- Credit institutions follow international best practices in mortgage lending

Strong developed market in mortgage-backed securities:

- Covered mortgage bonds: cédulas hipotecarias (CH)
- Securitisation

Excellent legislative & supervisory environment:

Supervisory control:

- **Timely and deep supervision of issuers through the Bank of Spain**
- **Prior authorisation of public offers and listings of CH by the CNMV**

Legal framework:

- **Mortgage Market Law 2/1981;**
- **Royal Decree 685/1982;**
- **Insolvency Law 22 /2003: amended the Mortgage Market Law to enhance CH holders position in the event of issuers insolvency**

Spain has a well-developed market in CH:

- **Direct issuance of CH**
- **CHs as assets in securitisations:**
 - **Securitisation legislation:**
 - Law 19/1992: regime for Mortgage Securitisation Funds
 - Royal Decree 926/1998: regime for Assets Securitisation Funds
 - **Club-funding: small credit institutions go to international markets through the joint issuance of securitised CHs backed by common pool of mortgages**

Total CHs in AIAF market (million euros)

	2004	2005	Variation (%)
CH issued	57.324	88.550	54,5%
Securitised CH	37.383	61.633	64,9%

Source: AIAF

Prior to issuance (directly or as securitised assets) and listing of CH issuers are subject to an administrative procedure with the CNMV

New legislation since Nov 05 to incorporate Prospectus Directive:

- More flexible procedures**
- Common European prospectus (Regulation EC 809/2004)**
- Prospectuses in English**
- Passport of prospectuses approved by CNMV**

Documents to be submitted to the CNMV:

- **Prospectus:**
 - **Information on the issuer and the CH**
 - **Possibility of electronic submission to the CNMV**
- **Issuers annual accounts (2 years)**
- **Legal documentation (issuers agreements, statutes, etc.).**

Cédulas hipotecarias: What are they? (I)



Similar to German Pfandbriefe (but only mortgages are used to cover the CH)

On balance sheet secured obligations issued by any Spanish credit institutions regulated by the Bank of Spain

Collateral: the entire mortgage portfolio of the issuer

Eligibility Criteria:

- Only residential mortgages with $LTV \leq 80\%$; and
- Commercial mortgages with $LTV \leq 70\%$

Properties:

- Wholly owned;
- Fully insured; and
- Valued by real estate surveyors approved by the Bank of Spain

Mandatory Overcollateralization: issuers can only issue CHs up to 90 percent of the eligible mortgage loan portfolio

Interest Rate:

- **Most CH are issued at fixed-rate**
- **Variable rate: the average interest rate must not exceed the average rate on qualifying variable mortgage loans**

Maturity Matching Requirements: No matching required in terms of maturity of assets and liabilities

10 % BIS risk weighted

Eligible for Tier 1 Repos with European Central Bank

Preferential claim on all the mortgage loan portfolio

If mortgage collateral is not sufficient to repay, CH holders are treated pari passu with Non subordinated bond holders

In case of insolvency of the issuer: there is no interruption of payments of principal and interest on CHs during insolvency proceedings

Increasing size of the credit institutions' mortgage portfolio

Decline in housing prices:

- **Indebted families with negative home equity**
- **Negative macroeconomic consequences due to impact in economic activity (employment in construction sector)**

Increase in mortgage rates: deteriorate families saving capacity (and possible defaults)

General aspects of the market. According to the IMF:

- **The Spanish financial system seems to be resilient to a downturn in the housing market**
- **Spanish credit institutions have a solid position**
- **Prudential measures could be considered**

Reform Mortgage Market legislation:

- **Expected timetable**
- **Objectives:**
 - **Introduce the possibility of new collaterals different from mortgages to improve credit rating of CH**
 - **More flexible legal requirements for specific products (for example, mortgage bonds)**