



A report by the Spanish Mortgage  
Association

FEBRUARY 2022

# Analysing the Spanish Mortgage Pool

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Second half of 2021

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# Analysing the Spanish Mortgage Pool

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## 1. Preliminary Comments

This report provides a dynamic analysis of the evolution of the mortgage portfolio of mortgage bond issuers subscribed to the ECBC's Covered Bond Label<sup>1</sup> over recent years. The data has been obtained from the information on the cover pools backing covered bond issuances provided and published by the credit entities on their corporate websites (at the end of 2021 these were 12 credit institutions<sup>2</sup>).

As a member of the ECBC, the Spanish Mortgage Association coordinates part of the publication process of this information as well as the definition of different concepts. Thus, all the variables presented in this analysis are subject to homogeneous definitions.

It should be clarified however that since the ECBC Label is an information platform to which the institutions voluntarily adhere, the treatment and interpretation of all the information presented throughout this publication must be limited to the purpose pursued in the analysis of the same. This is because that, although it provides an overview of the profile and composition of the pool in the Spanish mortgage market, it does not offer information on the total number of institutions operating in the market and it has not been possible to obtain an homogeneous sample of institutions throughout the time interval addressed (as a result of the reorganization of the banking system and of the importance that the ECBC Label is gaining in the international community, with the incorporation of new Spanish entities in recent years). That being said, this report could prove very useful in providing stakeholders with an outlook of the national market, since virtually over all the years under analysis the representativeness of the sample has remained above 80%-90% of the total mortgage volume of the Spanish mortgage system.

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<sup>1</sup> <https://coveredbondlabel.com/>

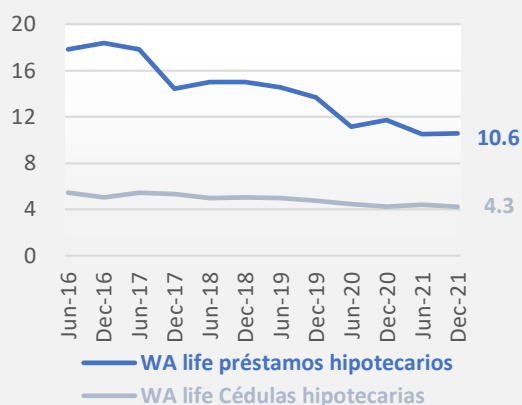
<sup>2</sup> Banco Sabadell, CaixaBank, Banco Santander, Kutxabank, Unicaja Banco, BBVA, Bankinter, Ibercaja Banco, Eurocaja Rural-Caja Rural Castilla-La Mancha, Caja Rural de Navarra, Abanca y Cajamar

## 2. Fundamental Data of the Cover Pool

After the slowdown in the real estate market caused by the uncertainty and the economic deterioration that the pandemic has caused, 2021 has been marked by the return to the market of a large part of the transactions that could not be closed in 2020; a substantial number of mortgage transactions has been formalised within a context of economic recovery supported by unprecedented favourable financing conditions. Although at a different pace, -according to data from the Bank of Spain the new originations grew at a rate of 35% in 2021-, it is observed that over the last 12 months the mortgage pool under study has shown a positive evolution, which is translated into 0.9% increase, up to 455,472 million euros balance<sup>3</sup>, following the expiration of most of the moratoriums on the repayment of principal.

As for the credit stock, this amounted to more than 5.5 million outstanding transactions, hardly 16,000 operations more (+0.3%) than those registered in 2020. On average, the average loan amount was around EUR 82,400 compared to almost EUR 81,900 in 2020 (+0.6%). It is worth mentioning that this amount is just over half of the principal granted on average in 2021 for new mortgage loans.

**Chart 1: Mortgage pool repayment vs. cédulas (years)**



Source: ECBC Label entities and own elaboration

In general, the average repayment term of the pool<sup>4</sup> has been experiencing a reduction in its duration from the 18 years recorded in 2016 to the current 10 and a half years. For its part, the term of the *cédulas hipotecarias* (covered bonds) – a resource used by credit institutions to fund their mortgage portfolios in the wholesale market – has remained more stable over time, although having also shown a downward trend, reaching at the end of the year 4 years and 3 months.

<sup>3</sup> A set of coverage in relation to which the bond holders (*cedulistas*) have a preferential right in case of bankruptcy of the issuer. Securitised assets that serve as a collateral for other transactions are excluded from this amount.

<sup>4</sup> Weighted average life: the weighting of the loan life according to the repayment schedule.

**Table 1: Fundamental Data of the Cover Pool**

	SAMPLE MORTGAGE PORTFOLIO (MM €) <sup>1</sup>	Nº LOANS	AVERAGE LOAN AMOUNT	AVERAGE LOAN TERM (years)	AVERAGE LTV	LOAN SEASONING (years)
Jun.-17	477,940	5,317,811	93,726 €	17.8	57.4%	-
Dec.-17	456,986	5,211,637	91,111 €	14.4	55.5%	8.1
Jun.-18	477,795	5,538,873	88,335 €	15.0	57.8%	8.0
Dec.-18	478,946	5,728,991	86,054 €	15,0	57.4%	8.4
Jun.-19	479,731	5,750,172	85,943 €	14.6	58,3%	8.5
Dec.-19	466,472	5,645,002	85,322 €	13.7	58.7%	8.6
Jun.-20	461,603	5,592,297	82,543 €	11.1	58.4%	8.8
Dec.-20	451,550	5,513,529	81,899 €	11.7	59.2%	8.8
Jun.-21	458,589	5,549,017	82,643 €	10.5	58.4%	8.6
Dec.-21	455,472	5,529,502	82.371 €	10.6	58.2%	8.6

<sup>1</sup> Not including Mortgage-Backed Securities (MBSs)

Source: ECBC Label entities and own elaboration

### 3. Property Type Information

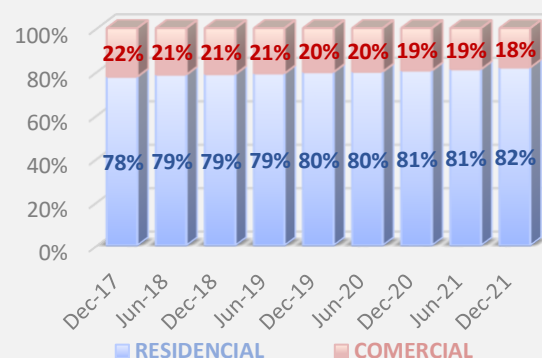
As for the nature of the collateral securing the loan, the dynamics of recent years are maintained, where the operations of the **residential portfolio**<sup>5</sup> predominate. In particular, this segment represented 81.9% of the outstanding balance in the cover pool as of December 2021. Loans with **a commercial real estate collateral**<sup>6</sup> have fallen to account for 18.1% of the outstanding balance of the portfolio, after losing more than 1.3 percentage points in the last 12 months.

**Table 2: Type of collateral (expressed in outstanding balance)**

	RESIDENTIAL	COMMERCIAL
Dec.-17	77.7%	22.3%
Jun.-18	78.6%	21.4%
Dec.-18	78.9%	21.1%
Jun.-19	79.2%	20.8%
Dec.-19	79.8%	20.2%
Jun.-20	80.0%	20.0%
Dec.-20	80.6%	19.4%
Jun.-21	81.1%	18.9%
Dec.-21	81.9%	18.1%

Source: ECBC Label entities and own elaboration

**Chart 2: Type of Collateral**



<sup>5</sup> Residential loans meet the following criteria: loans with full recourse to the individual taking out the loan; and either (a) loans secured against a residential property in which the borrower resides or b) where the borrower rents out less than four properties.

<sup>6</sup> Commercial loans are loans backed by a mortgage and which have recourse to a borrower, excluding individuals and public-sector entities.

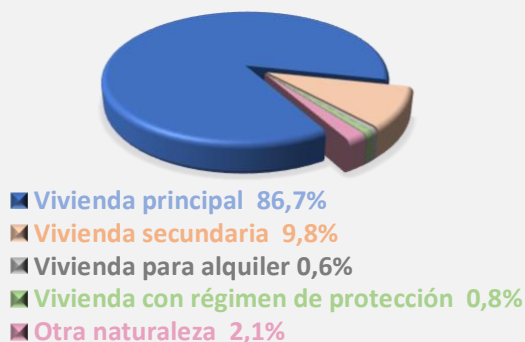
Within the **residential segment**, the breakdown of the portfolio remained at similar levels compared to previous years: 86.7% of the loans for principal home purchase balance (+0.1 percentage points in annual terms); with a significantly lower share were second homes, representing 9.8% of the outstanding balance and showing a somewhat more significant increase of 0.7 points compared to the end of 2020; while only 0.6% of the balance fell within the category of housing for rental purposes, an activity that is growing in recent times due to the economic and tax policies supporting this business segment. Nevertheless, it is not a highly developed activity so far by the banking industry since the nature of the risk and the business differ completely from the residential function itself. The remaining 2.9% of the portfolio corresponded to residential loans for different purposes than those mentioned above.

**Table 3: Residential portfolio purpose**

	MAIN RESIDENCE	SECOND HOME	RENTAL HOUSING	OTHER
Dec.-17	85.2%	10.1%	0.7%	4.0%
Jun.-18	84.3%	9.6%	0.7%	5.4%
Dec.-18	85.6%	9.7%	0.7%	4.0%
Jun.-19	86.3%	9.1%	0.7%	3.8%
Dec.-19	86.7%	9.0%	0.7%	3.5%
Jun.-20	86.6%	9.0%	0.8%	3.6%
Dec.-20	86.6%	9.1%	0.8%	3.5%
Jun.-21	86.8%	8.8%	0.6%	3.7%
Dec.-21	86.7%	9.8%	0.6%	2.9%

Source: entities registered in the ECBC Label and own elaboration

**Chart 3: Residential property collateral**



With regard to the **commercial portfolio**, the breakdown of the different assets remained in line with recent years, to a greater or lesser extent, although with slight variations. Compared to previous years, the logistics segment remained in top position by volume, although losing intensity, with a rate of 16.9% as of December 2021. The retail sector (commercial premises, restaurants, etc.) and the activity of real estate developers were also relevant with a share of 14.9% and 14.1%, respectively. While the first was 1.5 points above the value registered at the end of 2020; the second seemed to continue with the process of deleveraging that began as a result of the real estate and financial crisis, decreasing its weight in the commercial portfolio 1.2 points y-o-y.

Exposures related to hotel activity seemed to gain weight, as they represented 12.2% of the commercial balance in 2021, compared to 10.5% in 2020. Within this heading, it is worth mentioning

the introduction of moratoriums referring to the tourism sector<sup>7</sup>, which would have allowed suspend repayments for a certain period. The rest of the headings represented less than 10% of the commercial balance, with the exception of the classification 'others' that brought together a remarkable 20.5% of the balance, corresponding mostly to homes, car parks or unidentified real estate backing commercial mortgage loans.

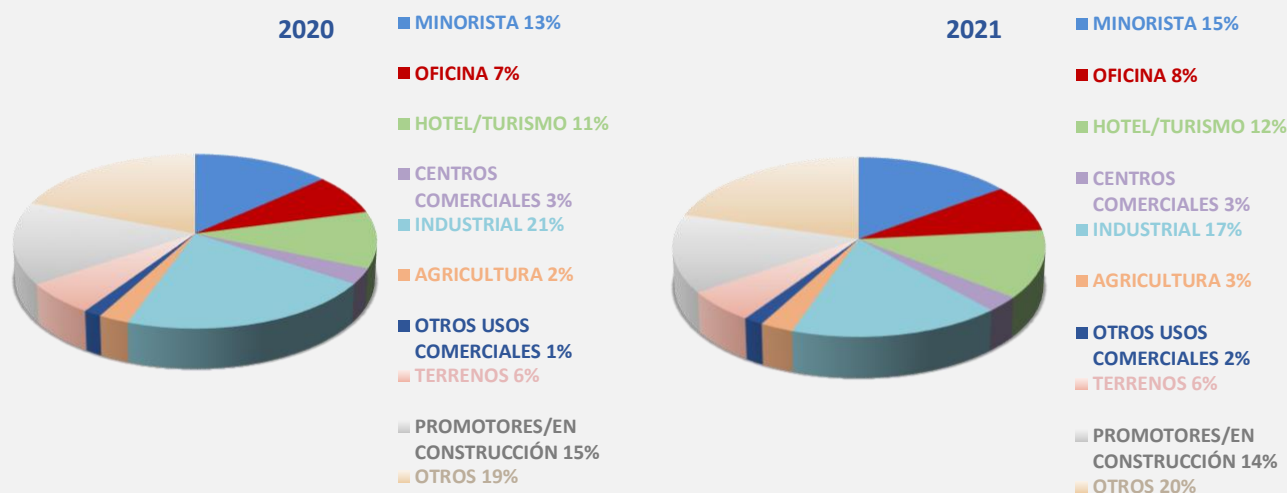
**Table 4: Typology commercial portfolio <sup>1</sup>**

	RETAIL	OFFICE	HOTEL/ TOURISM	SHOPPING MALLS	INDUSTRY	AGRICULTURE	OTHER COMMERCIALLY USES	LAND	DEVELOPERS /UNDER CONSTRUCTION	OTHER
Dec.-17	13.6%	6.4%	10.2%	3.1%	14.0%	1.8%	0.6%	7.7%	13.7%	28.9%
Jun.-18	12.3%	5.1%	6.8%	2.6%	18.1%	2.5%	3.6%	7.2%	12.2%	29.5%
Dec.-18	12.3%	5.2%	8.5%	3.2%	19.0%	2.4%	1.6%	6.8%	16.3%	24.6%
Jun.-19	13.3%	6.3%	9.1%	3.0%	20.2%	2.5%	1.5%	6.8%	15.8%	1.5%
Dec.-19	13.4%	6.8%	9.5%	3.1%	1.3%	2.4%	1.5%	7.0%	15.2%	19.9%
Jun.-20	13.3%	7.3%	9.9%	3.0%	1.3%	2.4%	1.5%	6.3%	15.4%	19.7%
Dec.-20	13.4%	7.5%	10.5%	2.9%	21.2%	2.5%	1.5%	6.1%	15.3%	19.1%
Jun.-21	15.3%	8.2%	12.0%	2.9%	16.9%	2.6%	1.5%	5.8%	14.8%	20.2%
Dec.-21	14.9%	8.5%	12.2%	2.8%	16.9%	2.7%	1.6%	5.8%	14.1%	20.5%

<sup>1</sup> data reviewed and corrected

Source: entities registered in the ECBC Label and own elaboration

**Chart 4: Commercial portfolio breakdown (2020 vs. 2021)**



Source: ECBC Label entities and own elaboration

<sup>7</sup> The moratorium on the tourism sector is regulated in Royal Decree-Law 25/2020, of 3 July 2020, on urgent measures to support economic reactivation and employment.

#### 4. Loan-to-Value Ratio (LTV)

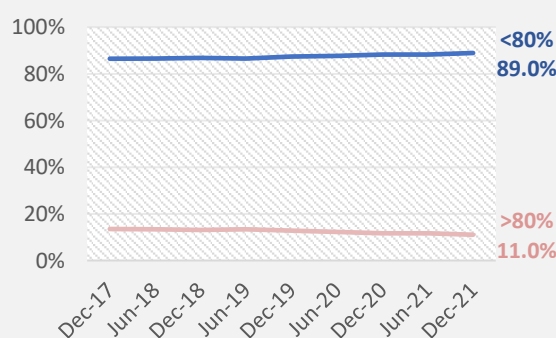
According to the Loan-to-Value Ratio (LTV), it is observed that amount of the loan is higher at levels that do not exceed 80% LTV, which shows a rigorous control of risks since 89.0% of exposures remained within the financial prudential limits. This share represented an increase of about 0.8 points compared to the situation of 2020. In this way, only 11.0% of the aggregate portfolio has an outstanding loan amount above 80% of the appraised value of the guarantee.

**Table 5:** LTV ratio distribution

	<80%	>80%
Dec.-17	86.5%	13.5%
Jun.-18	86.7%	13.3%
Dec.-18	86.8%	13.2%
Jun.-19	86.7%	13.3%
Dec.-19	87.3%	12.7%
Jun.-20	87.8%	12.2%
Dec.-20	88.2%	11.8%
Jun.-21	88.3%	11.7%
Dec.-21	89.0%	11.0%

Source: ECBC Label entities and own elaboration

**Chart 5:** LTV evolution by tranches of the sample



Within the volume of loans with principal not exceeding 80% of the value of the property, slightly less than half of them (47.3%) are located within the threshold below 50% LTV, thus maintaining the same level recorded a year ago.

This indicator is a very relevant element of valuation to limit risk exposure. In line with the dynamics mentioned in the portfolio, new residential loans with an LTV above 80% have been gradually reducing their weight, accounting currently below 9% of the market. In the case of the **residential portfolio** under study, this ratio is 10.2% somewhat higher than the share of new arrangements, probably because of the less recent loans with higher financing ratios and still dragging the portfolio failed operations as a result of the financial crisis.

On average, the weighted LTV of the cover pool stood at 58.2%, approximately one percentage point less y-o-y, showing evidence of the good credit quality on the balance sheets of credit institutions. In the **residential portfolio**, this coefficient stood at 57.0%, while in the **commercial portfolio** it rose to 63.5%.



## 5. Distribution of Loans by Size

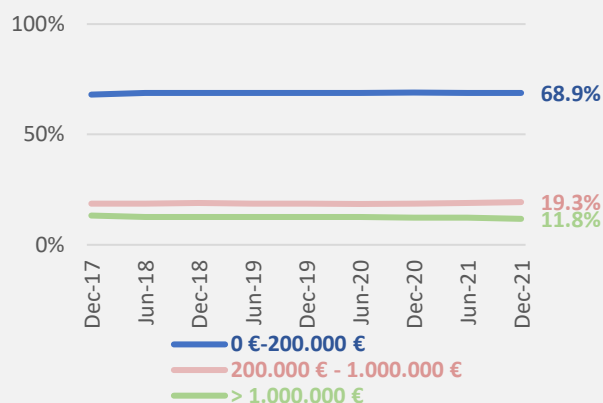
Considering the composition of the pool according to the outstanding capital, it is observed a slight variation in market shares in annual terms. Specifically, in the tranche that does not exceed EUR 200,000, the bulk of the portfolio is maintained, with an allocation of 68.9%, only 0.1 points less than the value registered in December 2020 and, in general, with a proportion similar to that of previous years. However, within the tranche that comprises loans between EUR 200,000 to EUR 1 million, a slight upward variation is observed: this interval has gone from representing 18.6% of the outstanding balance to recording 19.3% in the last year to the detriment of loans with a principal exceeding EUR 1 million, which reduced their share slightly from the 12.4% as of December 2020 down to 11.8% this year.

**Table 6:** Pool breakdown by loan outstanding balance

	0 €-200,000 €	200.000 €- 1,000,000 €	>1,000,000 €
Dec.-17	68.0%	18.7%	13.3%
Jun.-18	68.8%	18.6%	12.7%
Dec.-18	68.7%	18.8%	12.5%
Jun.-19	68.7%	18.8%	12.6%
Dec.-19	68.8%	18.7%	12.5%
Jun.-20	68.8%	18.5%	12.7%
Dec.-20	69.0%	18.6%	12.4%
Jun.-21	68.9%	18.9%	12.2%
Dec.-21	68.9%	19.3%	11.8%

Source: ECBC Label entities and own elaboration

**Chart 6:** Pool evolution by principal granted



When analysing the portfolio according to the nature of the collateral, important differences that have been maintained over the years are observed. In the **residential segment**, 79.2% of the residential balance was allocated in the tranche below EUR 200,000; 18.7% in the tranche between EUR 200,000 and EUR 1 million, while only 2.1% of the balance is made up of loans with a principal exceeding EUR 1 million. In the **commercial segment** however, as in previous years, a good part of the balance of this portfolio fell within the tranche that exceeds EUR 1 million, accounting for 55.8% this year. In this way, 44.2% of the remaining balance of the commercial portfolio is divided relatively homogeneously between the other two tranches: 22.2% corresponded to the tranche under EUR 200,000, while the other 22.0% corresponded to the intermediate tranche that includes loans with an outstanding balance ranging from EUR 200,000 and EUR 1 million.

## 6. Loan Seasoning

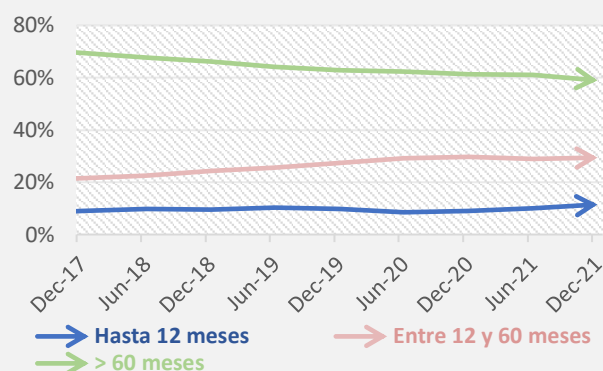
According to the behaviour of the pool in terms of loan seasoning, loans granted more recently showed a greater dynamism compared to those with higher seasoning. Specifically, with data as of December 2021, the share of loans granted less than 12 months ago was 11.5%, +2.5 percentage points y-o-y. This would be aligned with the market dynamics of this year in terms of volume of new operations, which as we mentioned at the beginning of this publication has shown extraordinary growth as a result of the reactivation of the real estate market and the improvement of economic expectations.

**Table 7: Loan Seasoning**

	Up to 12 months	Between 12 and 60 months	> 60 months
Dec.-17	8.9%	21.5%	69.6%
Jun.-18	9.8%	22.5%	67.7%
Dec.-18	9.5%	24.3%	66.2%
Jun.-19	10.3%	25.5%	64.2%
Dec.-19	9.9%	27.3%	62.8%
Jun.-20	8.4%	29.2%	62.4%
Dec.-20	8.9%	29.7%	61.4%
Jun.-21	10.0%	28.9%	61.1%
Dec.-21	11.5%	29.5%	59.0%

Source: ECBC Label entities and own elaboration

**Chart 7: Pool evolution by loan seasoning**



As for operations between 12 and 60 months (1-5 years) old, the situation has remained in general at similar levels during the last two years. Specifically, within this range were 29.5% of the balance as of December 2021, compared to 29.7% in the same period of 2020. In semi-annual terms, a greater increase is observed perhaps in response to the slowdown situation caused by the pandemic just over a year ago, which generated a reduction in the approval of new operations as can be seen for 2020. As for the remaining tranche, in particular with respect to the loans that were constituted more than 60 months ago (5 years), it is observed that their representativeness decreased practically in the same proportion as it increased the balance of loans with less than 12 months of seniority, although they were still the bulk, with a share that goes from 61.4% registered in December 2020 to 59.0% in 2021.

With respect to the average age of the portfolio, the annual evolution remained reasonably stable. In total, considering 10 of the 12 entities that make up the sample<sup>8</sup>, it resulted in a weighted average age of 8 years and a half.

<sup>8</sup> They represent around 81% of the balance of this pool

## 7. Amortisation Profile

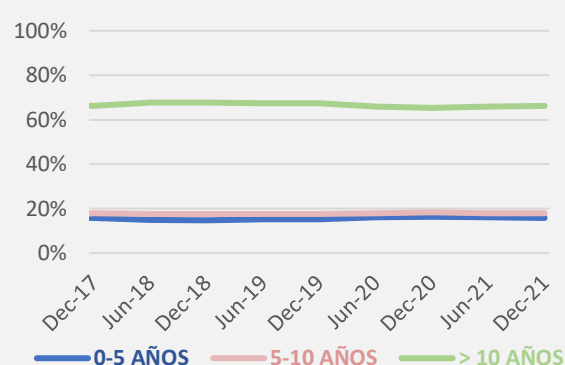
As for the composition of the mortgage pool according to the outstanding repayment term, there was a shift in the upward trend shown by the pool in the time interval from 0 to 10 years. In particular, in 2021 loans with this life term have fallen by around one percentage point, from representing 34.7% of the balance as of December 2020 down to the current 33.7%. Within it, there were 15.8% of the loans that are expected to be amortised (without considering the possibility of early repayment) in the next 5 years, while the remaining 17.9% will do so from that date.

**Table 8:** Amortisation profile

	0-5 YEARS	5-10 YEARS	> 10 YEARS
Dec.-17	16.0%	17.9%	66.1%
Jun.-18	14.9%	17.5%	67.6%
Dec.-18	14.7%	17.5%	67.8%
Jun.-19	15.1%	17.5%	67.4%
Dec.-19	15.1%	17.6%	67.3%
Jun.-20	16.1%	18.0%	65.9%
Dec.-20	16.3%	18.4%	65.3%
Jun.-21	16.2%	18.0%	65.9%
Dec.-21	15.8%	17.9%	66.3%

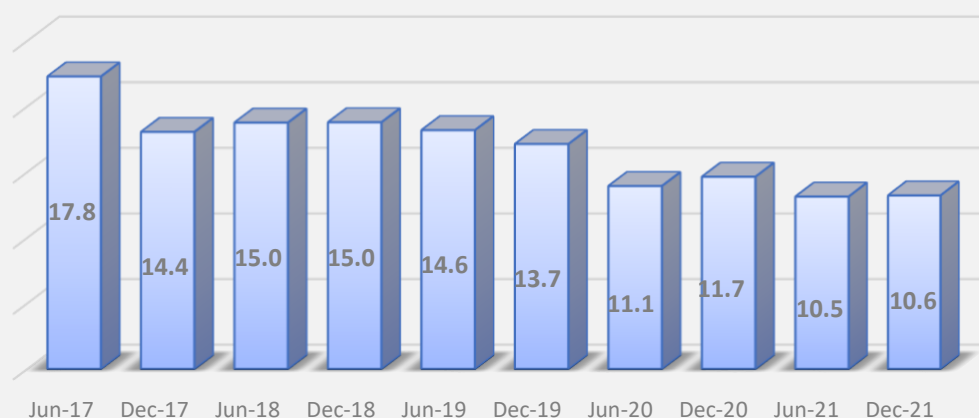
Source: entities registered in the ECBC Label and own elaboration

**Chart 8:** Pool evolution by loan seasoning



Loans with a repayment period exceeding 10 years predominated within the portfolio (in a business characterised by long term loans, especially in residential financing, where they can reach 30 years), with an outstanding balance representing 66.3% of the portfolio after increasing its share by one percentage point in the last year.

**Chart 9:** Evolution of the Weighted Average Life (Years)



Source: ECBC Label entities and own elaboration

In aggregate, the weighted average life<sup>9</sup> of the portfolio was 10 years and 6 months, however, the residual repayment term (weighted average maturity<sup>10</sup>) stood at 17 years and 9 months. Both indicators are showing nevertheless a downward trend.

Also, when adding to the outstanding repayment term (17.9 years) the portfolio seasoning (8.6 years) resulted in an average term per loan of approximately 26 and a half years, a figure reasonably in tune with the 24 and a half years calculated by the Bank of Spain on new residential mortgage loans. However, it should be clarified in this regard, that the first data includes not only the residential but also the commercial portfolio, despite the fact that residential assets are the bulk of the sample.

## 8. Geographical Distribution of the Pool

In general, when the portfolio is analysed according to the location of the underlying asset, the shares remained similar to previous years, without prejudice that slight variations may be observed between one year and another.

**Table 9:** Geographical distribution of the mortgage pool assets

	Andalusia	Catalonia	Madrid	Valencia	Basque Country	Castile and León	Galicia	Canary Islands	Balearic Islands	Other
Dec.-17	15.9%	21.6%	20.2%	9.8%	5.3%	3.3%	2.0%	4.0%	3.5%	14.3%
Jun.-18	15.9%	20.7%	17.7%	10.2%	5.1%	3.3%	3.4%	4.0%	3.5%	16.3%
Dec.-18	15.7%	20.5%	19.6%	10.0%	5.1%	4.2%	3.6%	3.8%	3.4%	14.2%
Jun.-19	15.4%	20.4%	19.6%	9.9%	5.1%	4.1%	4.0%	3.8%	3.5%	14.2%
Dec.-19	15.4%	20.4%	20.1%	9.7%	5.2%	4.1%	3.9%	3.7%	3.5%	14.0%
Jun.-20	15.3%	20.4%	20.5%	9.6%	5.3%	4.0%	3.9%	3.7%	3.5%	13.8%
Dec.-20	15.3%	20.6%	20.3%	9.6%	5.4%	4.0%	3.9%	3.6%	3.5%	13.9%
Jun.-21	15.3%	20.4%	20.6%	9.5%	5.4%	3.9%	3.9%	3.7%	3.5%	13.8%
Dec.-21	15.1%	20.4%	20.9%	9.5%	5.6%	3.8%	3.8%	3.6%	3.5%	13.6%

Source: own elaboration from ECBC Label data

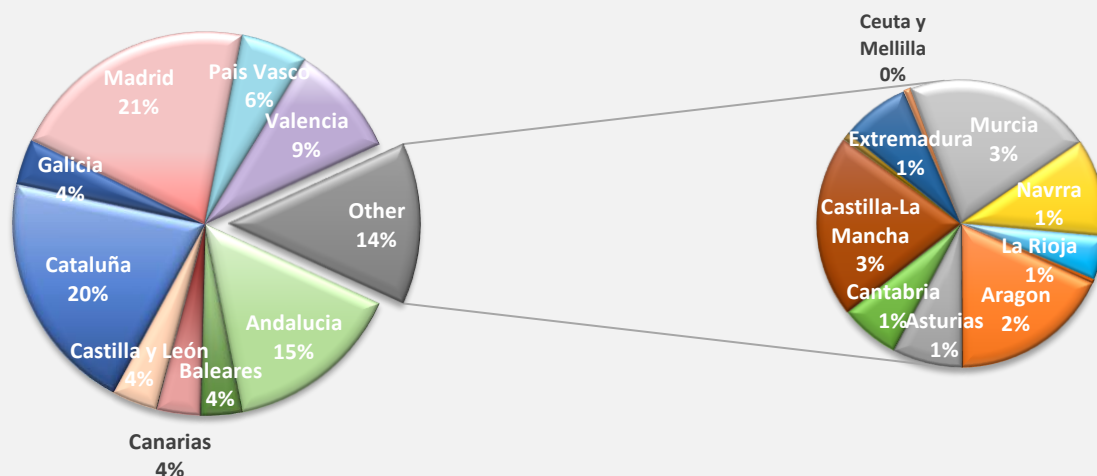
Not surprisingly, Catalonia and Madrid, two of the main economic hubs, continued to lead the ranking by volume of outstanding mortgage balance. Specifically, both concentrated 41.3% of the

<sup>9</sup> The weighting of the loan life according to repayment schedule accrued by the loan is considered. This is especially significant for loans under the French repayment system, where the principal is progressively amortised as the instalments are paid. Thus, in the case of a new loan, as the years gradually go by, a higher proportion of the instalment will be devoted to amortise capital.

<sup>10</sup> It is exclusively considered the residual term of the loan from the time of reference (the year under analysis) until maturity, without considering the planned repayment schedule. This data has been calculated on 10 of the 12 entities that make up the sample, which account for about 81% of the mortgage portfolio under analysis.

portfolio, after increasing their share by half a percentage point. In a disaggregated form, the Community of Madrid, which brings together 20.9% of the pool balance, exceeded by 0.5 points the penetration rate of Catalonia, which was 20.4%. It was followed by Andalusia, another community with relevant real estate activity, representing 15.1%. It is also worth mentioning the role of the Community of Valencia, which represented 9.5% of the portfolio. The Basque Country, Castilla y León, Galicia and the Canary and Balearic islands accounted for 20.4% of the portfolio, practically unchanged compared to previous years. In addition, all of them have a participation above 3.5%, highlighting the penetration share of the Basque Country that stood at 5.6%. The rest of the portfolio was distributed heterogeneously among the rest of the communities and led by Murcia (2.9%) and Castilla-La Mancha (2.8%).

**Chart 10:** Geographical distribution of the mortgage pool assets (Dec. 21)



Source: own elaboration from ECBC Label data

By type of collateral, the structural scheme hardly undergoes modifications with respect to the valuation of the aggregate portfolio, being again Madrid, Catalonia, Andalusia, Valencia and the Basque Country, in that order, the five regions that concentrated the largest volume of assets.

In the case of the **residential portfolio**, these five regions represented 71.4% of the residential mortgage balance, a proportion similar to that maintained both in the aggregate portfolio (71.6%), and in the **commercial portfolio** (72.3%). In the last year these five communities have gained some weight in both portfolios, although of little significance.

As in previous years, almost all credit exposures were located within the European Union (99.9%) and, more specifically, 98.5% are guaranteed with properties located in Spain, compared to 99.5% registered a year ago. This is apparent from the commercial operations of some credit institutions in communities that border other countries aiming at expanding their network.

## 9. Interest rates

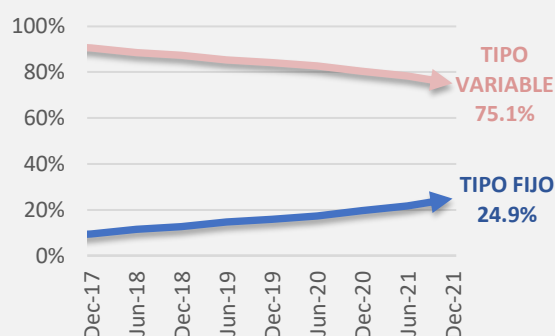
As for the modality of the subscribed interest rate, it was maintained the upward trend followed by new contracts since 2015 towards fixed-rate loans<sup>11</sup> compared to operations linked to variable interest rates<sup>12</sup>, something that is reflected in the outstanding pool.

**Table 10:** Pool breakdown by subscribed interest rate

	FIXED RATE	VARIABLE TYPE
Dec.-17	9.4%	90.6%
Jun.-18	11.6%	88.4%
Dec.-18	12.6%	87.4%
Jun.-19	14.7%	85.3%
Dec.-19	15.9%	84.1%
Jun.-20	17.3%	82.7%
Dec.-20	19.6%	80.4%
Jun.-21	21.6%	78.4%
Dec.-21	24.9%	75.1%

Source: ECBC Label entities and own elaboration

**Chart 11:** Pool share by interest rate



In 2021, specifically, the proportion of fixed rate loans have jumped for over one year from 19.6% to 24.9%, +5 percentage points (about 25,000 million more in absolute terms, a growth that seems at least relevant if it is also considered that the balance of the portfolio from one year to the next has only experienced a rebound that does not reach 1,000 million euros).

In both the **residential** and **commercial** portfolios, these structural differences are maintained, with the fixed-rate loan segment representing 24.4% and 27.0% of the balance, respectively, which translates into a significant increase in both credit segments with respect to the previous year (18.8% and 23.2%, respectively), although the rise in the residential portfolio is somewhat more pronounced.

<sup>11</sup>Loans with an initial rate fixation over 1 year.

<sup>12</sup> Loans with an interest rate up to 1 year of initial rate fixation.

## 10. Amortisation system followed in the pool

If the evolution of the portfolio is analysed according to the amortisation system used, in general the breakdown of the portfolio is maintained at practically identical levels. From a more global approach however operations following the French amortisation method (constant instalments) showed a small decrease<sup>13</sup>. In this sense, the French repayment system -the most common in mortgage loans- represented the bulk of the pool, accounting for 95.9% of the balance. To a clearly lesser extent, operations with a bullet (interest only) system represented 1.9% as of December 2021, after losing 0.3 percentage points in the last 12 months. The remaining 2.2% is attributed to credit exposures with instalments updated following an amortisation system different from those mentioned above (such as the increasing or decreasing amortisation system).

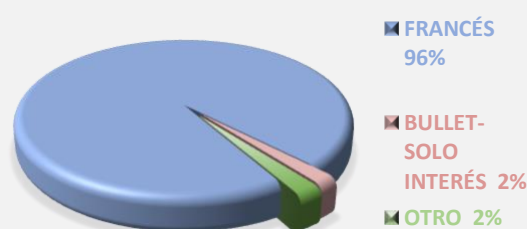
**Table 11:** Amortisation system detail<sup>1</sup>

	FRENCH	BULLET- INTEREST ONLY	OTHER
Dec.-17	96.6%	2.1%	1.3%
Jun.-18	96.3%	2.0%	1.8%
Dec.-18	96.5%	1.8%	1.7%
Jun.-19	96.1%	2.1%	1.9%
Dec.-19	95.9%	2.2%	1.9%
Jun.-20	95.8%	2.2%	2.0%
Dec.-20	95.7%	2.2%	2.1%
Jun.-21	95.7%	2.0%	2.2%
Dec.-21	95.9%	1.9%	2.2%

<sup>1</sup> reviewed data

Source: ECBC Label entities and own elaboration

**Chart 12:** Pool breakdown by repayment system (Dec.21)



As for the type of collateral, in the **residential portfolio** virtually all the operations in force followed the French amortisation system, accounting for 98.7% of the outstanding balance; while, in the **commercial portfolio**, this rate is more than 15 points below, with a share of 83.4%, gaining importance the operations following other systems. For example, for developer mortgage loan operations, the credit institution finances the developer normally for a period of three years (which is what is estimated to last approximately the construction and marketing process) through a bullet system in which only the loan accrues interest; however, from the third year, the developer must repay the loan under the

<sup>13</sup> A system characterised by constant periodic instalments, including principal and interests. Under this formula, in the first years of the loan more interests are paid rather than principal, and as the loan life pass the opposite occurs (as the life of the loan passes, less interest is paid, while more principal is amortised).

French amortisation system on the pending capital, because in principle much of it has had to be cancelled with the sale and delivery of the homes to the buyers, in such a way that the latter are subrogated in the loan of the developer for the corresponding amount of each home.

## 11. NPLs Portfolio

The steady decline in the portfolio of the Non-Performing Loans (NPL) ratio continues<sup>14</sup>, with the exception of the first half of 2020, which in perspective showed a practically anecdotal increase, coinciding precisely with the moment in which the pandemic broke out.

Taking an overall view, there were a clear improvement in the trajectory of doubtful assets, which has been settled in this last quarter of the year with an NPL rate in the portfolio as a whole of 3.3%, in clear contrast to both the rate of 3.8% of the previous half-year and that of 3.9% of the previous year. Incorporating, however, the detail of the total of loans that have some overdue and unpaid instalment, regardless of the moment in which it has occurred, there is instead a slight deterioration in the quality of the portfolio, which is located precisely in the tranches of shorter term of arrears (around 4.3%<sup>15</sup> of the portfolio would not be up to date with payment as of December 2021 compared to 4.1% of the previous half-year or 4.2 per cent of the previous year).

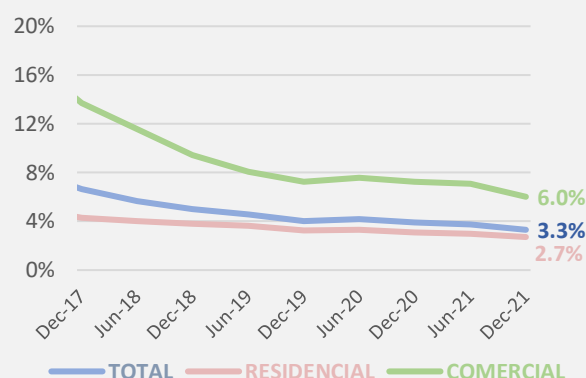
**Table 12:** Evolution of Non-Performing Loans (NPL)<sup>1</sup>

	TOTAL	RESIDENCIAL	COMERCIAL
Dec.-17	6.6%	4.3%	13.7%
Jun.-18	5.6%	4.0%	11.6%
Dec.-18	5.0%	3.8%	9.4%
Jun.-19	4.5%	3.6%	8.1%
Dec.-19	4.0%	3.2%	7.3%
Jun.-20	4.2%	3.3%	7.5%
Dec.-20	3.9%	3.1%	7.3%
Jun.-21	3.8%	3.0%	7.1%
Dec.-21	3.3%	2.7%	6.0%

<sup>1</sup> data reviewed and corrected

Source: ECBC Label entities and own elaboration

**Chart 13:** Evolution of Non-performing Loans



Analysing disaggregated data, both loans in the **residential portfolio** and those in the **commercial portfolio** have shown a favourable evolution, especially in the second half of 2021. In particular, in the

<sup>14</sup>Loans with more than 90 days past-due considering the total amount of the loan.

<sup>15</sup> Data calculated on 10 of the 12 entities that make up the sample, which represented around 81% of the balance.



**residential portfolio**, the weighted ratio of NPL - which represented 2.7% - has improved 0.3 points compared to the previous half-year and 0.4 points in annual terms. Again, this rate – in the absence of knowing the data for the fourth quarter of 2021 – is shown in general quite aligned with the rates of doubtfulness of the residential exposures declared by the set of entities that operate in the system and that we collect in our [doubtfulness statistics](#) from the data published by the Bank of Spain. As for the **commercial collateral**, it is also worth noting the good path it has shown over the years and especially in the second part of 2021, with a rate that stood at 6.0% at December 2021 compared to 7.1% in June 2021 or 7.3% at the end of 2020.

So far, banks do not seem to have been affected in terms of credit risk by the health crisis, thanks to the tax, monetary and economic support measures that have been put in place. In addition, in the light of the pool data and of the economic outlook for this new year, it is expected that the levels of doubtfulness will behave in a stable manner, without prejudice to the fact that the present and future situation requires continuing with a detailed monitoring of the different risk exposures, which in turn will be conditioned by the evolution of the macroeconomic context and the decisions taken within the framework of the ECB policy.