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Transaction Update: Oberoesterreichische Landesbank AG Mortgage Covered Bond Program

Hypotheken Pfandbriefe

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Ratings Detail

Reference Rating Level	**a+**
Resolution Regime Uplift	0*
Systemic Importance	Very Strong
Resolution Counterparty Rating	N/A
Issuer Credit Rating	**A+**

+

Jurisdiction-Supported Rating Level	**aa+**
Assigned Jurisdictional Support Uplift	+3
Jurisdictional Support Assessment	Very Strong
Legal Framework	Very Strong
Systemic Importance	Very Strong
Sovereign Credit Capacity	Very Strong

+

Maximum Achievable Covered Bond Rating	**aa+**
Collateral Support Uplift	0**
Overcollateralization Adjustment	0
Liquidity Adjustment	-1
Potential Collateral Based Uplift	+4

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Covered Bond Rating	
AA+/Stable	
Rating Constraints	aa+
Counterparty Risk	aaa
Country Risk	aaa

*We do not elevate the reference rating level above the issuing bank's issuer credit rating (ICR) because the expectation of external government support is already incorporated into the ICR. N/A--Not applicable.
** The program does not benefit from collateral-based uplift because there is no commitment to maintain sufficient overcollateralization in the program that would support a rating above the current ‘aa+’

Major Rating Factors

Strengths

- With a relatively high issuer credit rating and very strong jurisdictional support assessment for mortgages in Austria, the program reaches a 'AA+' rating without any collateral support.
- The cover pool is composed of first ranking claims, characterized by low loan-to-value ratio levels and high seasoning.

Weaknesses

- High asset concentration in the State of Upper Austria.
- Relatively high asset-liability mismatch, both in terms of maturity and interest rates.

Outlook: Stable

The stable outlook on the ratings on the covered bonds reflects the issuer's commitment to the current rating.

In the absence of any unused notches to the rating, the outlook on the covered bonds typically reflects the outlook on the issuer (Oberoesterreichische Landesbank AG, HYPO OOE, A+/Stable/A-1). Specifically, for Hypo OOE's covered bonds, the issuer has publicly committed to maintain the level of overcollateralization that is in line with the current 'AA+' rating level for the covered bonds. Therefore, in this program, the overcollateralization commitment supports the stable outlook on the 'AA+' ratings.

Rationale

We are publishing this transaction update as part of our periodic review of Hypo OOE's covered bond program and related issuances.

Our covered bond ratings process follows the methodology and assumptions outlined in our "Covered Bonds Criteria," published on Dec. 9, 2014, and "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

Our ratings reflect our reference rating level (RRL) of 'a+' and a jurisdiction-supported rating level (JRL) of 'aa+. The program does not benefit from collateral-based uplift because there is no commitment to maintain sufficient overcollateralization in the program that would support a rating above the current 'aa+'.

Under our resolution regime analysis, we determined an RRL of 'a+'. The issuer is domiciled in Austria, which is subject to the EU's Bank Recovery and Resolution Directive (BRRD). This fact and our very strong assessment of the systemic importance of mortgage covered bonds in Austria would generally enable the program to benefit from up to two notches of uplift above the issuer credit rating (ICR). However, we typically do not elevate the RRL above the ICR on the issuing bank for issuers for which the expectation of external government support is incorporated into the ICR, as determined under our bank criteria. In particular, if an issuer is a government-related entity (GRE), the RRL is typically equal to the ICR.

We then consider the likelihood for the provision of jurisdictional support, which for mortgage programs in Austria we assess as very strong. This leads us to apply up to three notches of uplift from the RRL. The jurisdiction-supported rating on the covered bonds cannot be higher than our long-term rating on the Austrian sovereign. As we rate Austria at 'AA+' the program can benefit from all three available notches of jurisdictional supported uplift. Therefore, we assess the jurisdiction-supported rating level (JRL) at 'aa+'.

We have reviewed the cover pool information and program level cash flows provided as of June 30, 2023. The available credit enhancement of 13.31% in the program is commensurate with one notch of collateral based uplift. However, the issuerś overcollateralization commitment extends to a rating no higher than 'AA+'. Therefore, in line with our covered bonds criteria, we do not assign any collateral based uplift (see "Related Criteria").

The ratings on the program and related issuances are not constrained by legal, operational, counterparty, or sovereign risks.

We have based our analysis on the criteria articles referenced in the "Related Criteria" section.

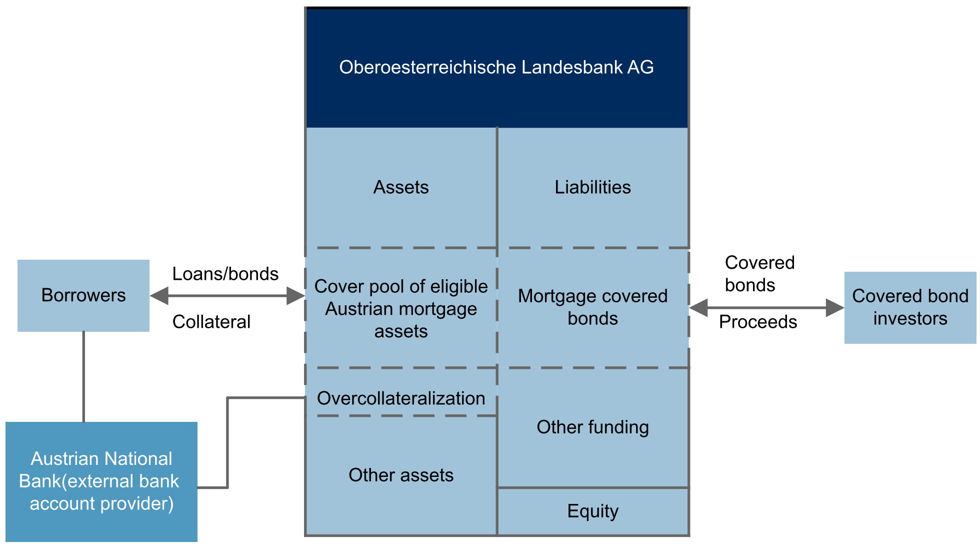
Program Description

Table 1

Program overview*	
Jurisdiction	Austria
Year of first issuance	2016
Covered bond type	Legislation-enabled
Outstanding covered bonds (bil. €)	2,448.40
Redemption profile	Hard bullet
Underlying assets	Residential and commercial mortgages, substitute assets
Jurisdictional support uplift	3
Unused notches for jurisdictional support	0
Target credit enhancement (%)	18.84
Available credit enhancement (%)	13.31
Collateral support uplift	0
Unused notches for collateral support	0
Total unused notches	0

*Based on data as of June 30, 2023

Oberoesterreichische Landesbank AG



HYPO OOE is a small commercial bank in Upper Austria with a strong focus on its home state. The bank carries out state-related banking services, with a dominant focus on niche segments in Upper Austria, mainly public-sector lending and related real estate financing, promotion of subsidized housing programs, and residential mortgages, as well as financing of medical services and corporations. In the area of subsidized housing, the bank has an exclusive partnership with Upper Austria. The bank's main shareholders are the State of Upper Austria (51%) and Raiffeisenlandesbank Oberoesterreich AG (41%).

We consider HYPO OOE to be a GRE with a high likelihood of receiving timely and sufficient extraordinary government support from the state of Upper Austria if needed.

The covered bonds constitute a senior secured unsubordinated obligation, rank pari passu with other obligations secured by the cover register, and are governed by the Austrian Covered Bond Act ("Pfandbriefgesetz"). All covered bonds are issued with a hard-bullet maturity.

Table 2

Program participants

Role	Name	Rating	Rating dependency
Issuer	Oberösterreichische Landesbank AG	A+/ Stable/A-1	Yes
Bank account provider	Austrian National Bank	NR	Yes
Servicer	Oberösterreichische Landesbank AG	A+/ Stable/A-1	No
Originator	Oberösterreichische Landesbank AG	A+/ Stable/A-1	No

Rating Analysis

Legal and regulatory risks

We base our legal analysis on our "Structured Finance: Asset Isolation And Special-Purpose Entity Methodology", published on March 29, 2017, and our covered bond ratings framework.

The issuer is regulated and supervised by the Financial Market Authority (FMA) and the covered bonds are secured by a separate pool of assets.

Most of HYPO OOE's outstanding covered bonds were issued under the previous Austrian Mortgage Bond Act ("Pfandbriefgesetz"). Covered bonds issued after July 7, 2022 are issued under Austria's new covered bond law ("Pfandbriefgesetz") which implements the EU's Covered Bonds Directive. The revised law merged the three laws in force before July 8, 2022 ("Hypothekenbankgesetz," "Pfandbriefgesetz," and the "Gesetz betreffend fundierte Bankschuldverschreibungen") into one, lessening the legal complexity for Austrian covered bonds.

The new legislation includes--among others--a 180-day liquidity buffer requirement, a 2% minimum nominal overcollateralization requirement, the possibility for the special cover pool administrator to extend the maturity of the covered bonds by a maximum of 12 months subject to certain conditions, the appointment of a cover pool monitor (which can be internal or external at the issuer's choice), and the requirement of borrower consent for a loan to be registered as cover asset.

Covered bonds that were issued before July 8, 2022 are not required to fulfill all requirements of the new law. We understand that HYPO OOE's outstanding bonds issued before July 8, 2022 have been grandfathered with the original designation. The Mortgage Bond Act includes, among other provisions, a 2% minimum nominal overcollateralization, and a mandatory reporting requirement. The Act does not specify a minimum liquidity requirement that the issuer has to maintain.

Derivatives are allowed for risk hedging purposes and must be registered in the cover register subject to prior consent of the counterparty.

Under the new legislation, loan-to-value (LTV) limits are inferred from the reference of eligible cover assets to CRR Art. 129(1), referring to a LTV limit of 80% of the value of the property for residential real estate, and 60% for commercial real estate. Issuers can set lower LTV limits for their covered bond program in their articles of association.

Borrowers do not have the right to set off any deposits they have with the issuer against their mortgages in the cover pool register. The prohibition of set-off does not apply to derivative contracts when netting occurs in respect of receivables arising under the same master agreement.

From our analysis, we have concluded that the Austrian Covered Bond Act addresses the main legal aspects we assess in covered bond legislation. We have concluded that the cover pool register is effectively isolated from the insolvency estate of the issuer for the benefit of the covered bondholders. Upon issuer insolvency, following consultation with the Austrian regulator (FMA), a cover pool administrator is appointed by a bankruptcy court to continue the management of the cover pool and to satisfy the claims of the covered bondholders. The protection of the assets and continued management of the cover pool allows us to assign a higher rating to the covered bond program than we would to the long-term ICR on the issuer.

Operational and administrative risks

Based on our regular contact with the issuer, we consider that the issuer actively manages the cover pool and has strict underwriting and loan management policies. The issuer has systems in place to ensure timely payment on outstanding covered bonds.

We also believe that there is a high likelihood that a replacement cover pool manager could be appointed if the issuer became unable to manage the program following its default. We consider the high likelihood of a replacement servicer as part of the cash-flow analysis based on the standardized characteristics of the assets and we model a stressed fee in order to reflect the need to incentivize a replacement servicer.

Our analysis of operational and administrative risk follows the principles laid out in our covered bond ratings framework (see "Related Criteria").

Resolution regime analysis

Our analysis considers any resolution regime in place in Austria to determine the RRL. The RRL on the issuer, which is the starting point for any further uplift in our analysis, is 'a+'.

The issuer is domiciled in Austria, which is subject to the EU's Bank Recovery and Resolution Directive (BRRD). Resolution regimes like the BRRD increase the probability that an issuer could service its covered bonds even following a default on its senior unsecured obligations because the law exempts covered bonds from bail-in risk if there is a bank resolution. We consider this as an internal form of support because the bail-in of certain creditors of the issuer does not require direct government support. Additionally, our assessment of the systemic importance for Austrian mortgage covered bonds programs is very strong.

Based on these two facts we would typically add two notches of resolution support to the issuer credit rating. However, we view Hypo OOE as a GRE and incorporate potential sovereign support in the ICR. Therefore, the resulting RRL equals the ICR ('A+').

Jurisdictional support analysis

In our jurisdictional support analysis, we assess the likelihood that a covered bond program facing stress would receive support from a government-sponsored initiative instead of from the liquidation of collateral assets in the open market. Based on a very strong jurisdictional support assessment for mortgage programs in Austria, we assigned three notches of uplift from the RRL and assess the JRL as 'aa+'. The program does not benefit from any unused notches of jurisdictional support uplift.

Collateral support analysis

In addition to residential (67.92%), and commercial mortgage assets (31.90%), the cover pool includes a small share of substitute assets (0.18%).

We base our credit analysis of residential mortgage assets on the specific adjustments defined for Austria under our global residential loans criteria, our analysis of commercial assets on our covered bonds commercial real estate criteria, and the analysis of the substitute assets on our public sector criteria (see "Related Criteria").

For the credit analysis of the cover pool we receive stratified mortgage information from the issuer and transfer the data to a loan level format, under conservative assumptions (e.g. for LTV ratios provided under a bucket, we assumed the LTV at the highest level of the bucket) and following an LTV distribution that is representative for the issuer's portfolio, in order to assess the credit analysis via our loan level model.

Most of the residential assets are owner-occupied properties. The majority of commercial assets are split between loans on multifamily homes (58%), and ownership associations (35%). The latter are cooperative housing with the ultimate collateral being for residential purposes. The remaining share of the commercial portfolio is made up of investment and operating properties, with focus on office space.

The dominant share of the mortgage assets show a form of interest subsidy from the regional state, which, due to the government involvement, results in a low margin. We do not currently give any benefit to the interest subvention specified above, which exists only if the interest rises above a pre-specified level. In the current--still relatively low--interest environment, there is limited to no benefit for the cover pool, and in cases where there is a subvention in place the borrowers remain ultimately liable for the full interest payments on their loans. Additionally, we do not have a stronger credit performance history available compared to standard mortgage assets without this additional feature.

We assess a typical mortgage cover pool's credit quality by estimating the credit risk associated with each loan in the pool. We then calculate the aggregate risk to assess the cover pool's overall credit quality. To quantify the potential losses associated with the entire pool, we weight each loan's foreclosure frequency and loss severity by its percentage of the total pool balance. The product of this weighted-average foreclosure frequency (WAFF) and weighted-average loss severity (WALS) estimates the required loss protection, assuming all other factors remain unchanged.

As of June 30, 2023, we have determined a WAFF of 13.93% and a WALS of 13.19% (see table 4). Compared to our previous review, the overall credit coverage (WAFF x WALS) of the cover pool has deteriorated by about forty basis points.

We calculated higher 'AAA' WAFF for both the residential and commercial assets. We observed a higher share of loans in arrears in both subpools. Further, higher whole-loan LTVs in the commercial portfolio also contributed to our higher default assumption. In addition to increased WAFF in both the residential and commercial portfolio, the share of commercial assets increased, which further raised the WAFF in the cover pool because we assume higher default rates on commercial loans compared to residential loans.

On the other hand, the lower geographic concentration of commercial assets located in Upper Austria compensated for some of the negative impact on our overall default assumption.

The WALS on the residential portfolio decreased by about a percentage point and increased by more than two percentage points on the commercial assets. Both developments were mainly mainly driven by the change in LTV ratios in the cover pool.

We have updated and reduced our overvaluation assumption on the Austrian residential market to 40% from 45%, which had marginal beneficial impact on the results of the credit analysis.

The overall WAFF and WALS figures in Hypo OOE's cover pool are below the average figures that we calculate for the Austrian programs that we rate (23.38% and 35.82%, respectively).

Our analysis also takes into account obligor, geographic, and industry concentration risk, as outlined in our commercial real estate criteria (see "Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds," published on March 31, 2015) and our public sector criteria. In Hypo OOE's cover pool the largest obligor test (LOT) shows the highest concentration. However, concentration risk does not drive the credit enhancement commensurate with the maximum potential rating.

We define the LOT as the assessment of the covered bonds' ability to withstand the default of a minimum number of the largest obligors in the cover pool with a fixed assumed recovery rate, factoring the underlying assets' credit quality. While we base our credit analysis on stratified information, we received valuation details from the issuer on the properties that back the loans to the largest obligors. Based on this information and our calculation, 1.42% credit enhancement is required to cover concentration risk in the program. This is lower than the 'AAA' credit risk and therefore, the concentration test does not drive the results of our analysis.

Table 3

Cover pool composition

	As of June 30, 2023		As of June 30, 2022	
Asset type	**Value (€)**	**Percentage of cover pool**	**Value (€)**	**Percentage of cover pool**
Residential mortgages	1,884,312,901	67.92	1,935,810,871	70.97
Commercial mortgages	884,898,480	31.90	741,965,027	27.20
Substitute assets	5,000,000	0.18	49,954,900	1.83
Total	2,774,211,381	100.00	2,727,631,499	100.00

Table 4

Key credit metrics

	As of June 30, 2023	**As of June 30, 2022**
Residential mortgages		
Weighted-average effective LTV ratio (%)	57.21	57.94
Weighted-average current LTV ratio (%)	23.93	25.98
Weighted-average loan seasoning (months)	108.60	112.57
Balance of loans in arrears (%)	1.47	0.85
Weighted-average foreclosure frequency (WAFF; %)	7.55	5.59
Weighted-average loss severity (WALS; %)	2.35	3.91
Commercial mortgages		
Weighted-average whole-loan LTV ratio (%)	46.44	43.72
Weighted-average cover pool LTV ratio (%)	46.37	41.72
Weighted-average foreclosure frequency (WAFF; %)	27.43	25.82
Weighted-average loss severity (WALS; %)	36.12	33.74
Credit analysis results		
Weighted-average foreclosure frequency (WAFF; %)	13.93	11.94

Table 4

Key credit metrics (cont.)

	As of June 30, 2023	As of June 30, 2022
Weighted-average loss severity (WALS; %)	13.19	12.15

LTV--Loan to value. Seasoning refers to the elapsed loan term.

Table 5

Cover pool assets by loan size

	As of June 30, 2023	As of June 30, 2022
(€ '000s)		
0-500	75.91	79.97
500-1,000	6.53	6.35
1,000-2,500	7.56	6.46
2,500-5,000	4.69	3.16
5,000-10,000	2.49	2.62
Greater than 10,000	2.82	1.44

Table 6

Loan seasoning distribution*

	As of June 30, 2023	As of June 30, 2022
Less than 18 months	8.44	7.82
18-60	28.75	26.83
More than 60	62.81	65.35
Weighted-average loan seasoning (months)*	95.09	100.92

*Seasoning refers to borrower's relationship term, as loans are often refinanced.

Table 7

Geographic distribution of loan assets

	As of June 30, 2023	As of June 30, 2022
Burgenland	0.47	0.30
Carinthia (Kaernten)	0.06	0.04
Lower Austria (Niederoesterreich)	3.76	2.97
Upper Austria (Oberoesterreich)	86.02	89.70
Salzburg	0.96	0.68
Styria (Steiermark)	3.92	3.58
Tyrol (Tirol)	0.30	0.25
Vorarlberg	0.03	0.03
Vienna (Wien)	4.47	2.45

Table 8

Collateral uplift metrics

	As of June 30, 2023	As of Sept. 30, 2022
Asset WAM (years)	10.32	9.26
Liability WAM (years)	5.38	5.9
Available credit enhancement	13.31	15.49

Table 8

Collateral uplift metrics (cont.)

	As of June 30, 2023	As of Sept. 30, 2022
'AAA' credit risk	4.85	13.35*
Required credit enhancement for first notch of collateral uplift (%)	8.35	13.35*
Required credit enhancement for second notch of collateral uplift (%)	11.85	13.35*
Required credit enhancement for third notch of collateral uplift (%)	15.34	13.35*
Target credit enhancement for maximum uplift (%)	18.84	13.35*
Potential collateral-based uplift (notches)	2	4
Adjustment for liquidity (Y/N)	N	N
Adjustment for committed overcollateralization (Y/N)	Y	Y
Collateral support uplift (notches)	0	0

*Floored by concentration risk. WAM--Weighted-average maturity.

Payment structure and cash flow mechanics

Our analysis of the covered bonds' payment structure shows that the cash flows from the cover pool assets would be sufficient, at the given rating level, to make timely payment of interest and ultimate payment of principal on the legal final maturity.

We consider that there is an active secondary market for mortgages in Austria. As a result, the program can benefit from up to four notches of collateral-based uplift according to our covered bonds criteria. As there are no commitments for liquidity coverage we deduct one notch from the available four potential notches of collateral-based uplift.

The program commits to hold sufficient overcollateralization to maintain the current 'AA+' rating, which it can achieve with jurisdictional support only and without any collateral above the legal minimum (2% nominal overcollateralization). Therefore, we give no benefit to the available overcollateralization in excess of the 2% in our collateral analysis. The program therefore does not benefit from any unused notches of collateral based uplift.

Available credit enhancement decreased to 13.31% in June 2023 from 14.41% in June 2022 as the covered bond balance increased by 2.7%, while asset balance was up only by 1.7%, compared to the previous analysis.

Both 'AAA' credit risk and target credit enhancement increased since our last analysis, due to a combination of lower excess spread and higher asset-liability maturity mismatch. While obligor concentration floored 'AAA' credit risk in the previous analysis, this is no longer the case due to the additional information on property valuations backing the loans to the largest obligors that we received from the issuer and incorporated into our analysis.

Counterparty risk

The ratings on the program and related issuances are not constrained by counterparty risks. Cover pool related inflows enter dedicated accounts with Austrian National Bank, the only account provider for the program.

There are no derivatives registered in the cover pool.

We analyzed the counterparty risks according to our current counterparty criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019).

Sovereign risk

Under our structured finance sovereign risk criteria, covered bonds issued in a jurisdiction that is within a monetary union and do not include structural coverage of refinancing need over a 12-month period exhibit moderate sensitivity to country risk. As a result, we can rate these covered bonds up to four notches above the sovereign rating (see Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published Jan. 30, 2019). Given our 'AA+' long-term rating on Austria, country risk does not constrain our ratings on the covered bonds.

Environmental, Social, And Governance

Our ratings on Hypo OOE's mortgage covered bonds do not incorporate any collateral-based uplift. Consequently, we consider that environmental and social credit factors have a neutral effect on the analysis of Hypo OOE's cover pool.

The social angle of the bank's market leadership in Upper Austria's cooperative housing development, its support for first-time buyers, and the low LTV ratios in the residential loan portfolio are potential credit positive factors. The program is governed by the Austrian Covered Bond Act. While the new legislation introduced a 180-day liquidity buffer requirement for bonds issued after July 8, 2022, the legislation on grandfathered covered bonds lacks liquidity provisions. Therefore, we generally adjust the maximum achievable uplift for covered bonds issued under this framework due to the absence of liquidity provision. This factor does not affect Hypo OOE's covered bonds because the program does not make use of any collateral-based uplift. Hypo OOE is committed to maintain overcollateralization in the program that is commensurate with the current ratings. We reflect this commitment in the stable outlook on the current ratings.

Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015
- Covered Bonds Criteria, Dec. 9, 2014
- Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities, Dec. 9, 2014
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Global Covered Bond Insights Q4 2023, Oct. 20, 2023
- Asset Price Risks: Overvaluation Persists For Europe's RMBS And Covered Bond Markets, Oct. 4, 2023
- Oberoesterreichische Landesbank AG, March 14, 2023
- S&P Global Ratings Definitions, Jan. 5, 2021
- Glossary Of Covered Bond Terms, April 27, 2018