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Ratings

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Transaction Update: Bausparkasse Wuestenrot AG (Covered Bonds)

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Ratings Detail

Reference Rating Level	a-
Resolution Regime Uplift	+2
Systemic Importance	Very Strong
Resolution Counterparty Rating	None
Issuer Credit Rating	BBB

+

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	aaa
Collateral Support Uplift	+4
Overcollateralization Adjustment	0
Liquidity Adjustment	0
Potential Collateral Based Uplift	+4

=

Covered Bond Rating	AAA/Stable
Rating Constraints	aaa
Counterparty Risk	aaa
Country Risk	aaa

Major Rating Factors

Strengths

- Very granular portfolio of Austrian residential mortgages diversified across regions.
- The covered bonds benefit from a public commitment to maintain a level of overcollateralization commensurate with a 'AAA' rating.
- The cover pool does not contain any loans that are more than 60 days in arrears.

Weakness

- The cover pool includes about 27% of second- and lower-ranking loans as reflected in our credit analysis. In this respect, the corresponding prior-ranking loans often comprise subsidized-housing loans.

Outlook: Stable

The stable outlook on the covered bond ratings reflects one unused notch of collateral-support uplift that would protect the ratings on the covered bonds if we were to lower the long-term issuer credit rating (ICR) on Bausparkasse Wuestenrot AG (BWAG) by one notch, all else being equal.

Rationale

We are publishing this transaction update as part of our periodic review of BWAG's mortgage covered bond program.

Our covered bond ratings process follows the methodology and assumptions outlined in our "Covered Bonds Criteria," published on Dec. 9, 2014, and our "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015. Accordingly, we performed a legal and regulatory review, an operational risk review, a resolution regime analysis, a jurisdictional support analysis, a collateral support analysis, and a counterparty and sovereign risk analysis.

BWAG's mortgage covered bonds are issued under the Austrian Pfandbriefgesetz (Mortgage Bond Act); Gesetz vom 21. Dezember 1927 über die Pfandbriefe und verwandten Schuldverschreibungen öffentlich-rechtlicher Kreditanstalten. We consider that the Austrian legal and regulatory framework effectively isolates the cover pool assets from the issuer's insolvency estate for the benefit of the covered bondholders. The protection of the cover pool assets and the continued management of the cover pool allows us to elevate the rating on the covered bonds above BWAG's creditworthiness.

Based on our operational risk analysis, which covered a review of BWAG's lending process, collection procedures, and default management procedures, as well as cover pool management and administration, we believe that the ratings on the covered bonds are not constrained by operational risk.

Under our resolution regime analysis, we determined the covered bonds' reference rating level (RRL) as 'a-'. This reflects the exclusion of covered bonds from bail-in-able debt, and our view of a very strong systemic importance of covered bonds in Austria.

Under our jurisdictional support analysis, we determined the covered bonds' jurisdiction-supported rating level (JRL) as 'aa-'. This uplift reflects our very strong jurisdictional support assessment for mortgage covered bonds in Austria.

Based on our collateral support analysis using loan-by-loan data as of Sept. 30, 2021, and cash flow data as of Oct. 31, 2021, we have assigned a further three-notch uplift above the JRL. This reflects the fact that the available overcollateralization as of Oct. 31, 2021, of 42.08% exceeds the target credit enhancement of 10.51% commensurate with a potential four-notch uplift above the JRL. We did not reduce these four notches, owing to the issuer's commitment to maintain overcollateralization at a level commensurate with a 'AAA' rating. In addition, we did not apply a reduction for the lack of 180 days of liquid assets when we assign a covered bond rating that exceeds the foreign currency rating on the covered bond issuer's sovereign of domicile. This is because our structured finance sovereign risk criteria already limit the number of notches of uplift above the long-term sovereign rating if refinancing risk is not addressed. Consequently, the achieved collateral support uplift is four notches above the JRL, of which three are used to achieve a 'AAA' rating. Therefore, the covered bonds have one unused notch of collateral support, which would protect the ratings on the covered bonds in the event of an issuer downgrade by up to one notch.

There are no rating constraints to the 'AAA' rating relating to legal, counterparty, or sovereign risks.

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

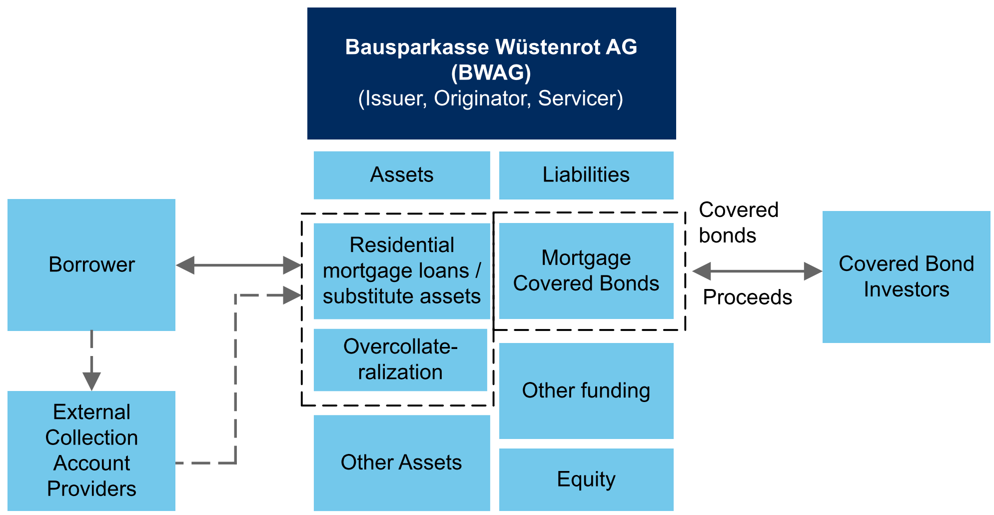
Program Description

Table 1

Program Overview As Of Sept. 30, 2021	
Jurisdiction	Austria
Covered bond type	Legislation-enabled (Austrian Pfandbriefgesetz)
Cover pool assets	Residential mortgage loans and substitute assets
Covered bond rating	AAA/Stable
Cover pool notional amount as of Sept. 30, 2021 (mil. €)	1,021.4
Outstanding covered bonds as of Oct. 31, 2021 (mil. €)	718.9
Redemption profile	Hard bullet
Resolution regime uplift	2
Jurisdictional support uplift	3
Unused notches for jurisdictional support	0
Target credit enhancement (%)	10.51
Credit enhancement commensurate with current rating (%)	8.87
Available credit enhancement as of Oct. 31, 2021 (%)	42.08
Assigned collateral support uplift	3
Unused notches for collateral support	1
Total unused notches	1

Transaction Structure

Bausparkasse Wüstenrot AG Mortgage Covered Bond Program



Wuestenrot group is a bank assurance group active predominantly in Austria, with small operations in neighboring Central and Eastern European countries in both banking and insurance segments. BWAG, a building society (Bausparkasse), is the largest entity in the Wuestenrot group with total assets of €6.46 billion as of year-end 2020.

BWAG is subject to the Austrian Building Society Act (Bausparkassengesetz - BSpG), which significantly restricts business opportunities for building societies when compared to those of universal banks. Building societies are authorized to take deposits from customers and provide them with loans for housing-related measures and measures in relation to education and care.

BWAG has a long and established track record and high market share in its niche building savings loan business. It funds itself mostly through retail deposits with most linked to savings contracts. In December 2013, BWAG received its license to issue covered bonds, allowing it to diversify its refinancing opportunities. It uses covered bonds to manage asset liability maturity mismatch and interest rate risk. Since May 2021, covered bond issuance is limited to 20% of the total balance sheet (up from 10% previously).

As of Oct. 31, 2021, BWAG had €718.9 million of mortgage covered bonds outstanding (up from €344 million as of our previous review [see "Transaction Update: Bausparkasse Wuestenrot AG (Covered Bonds)," published on Jan. 7, 2021]). The covered bonds constitute senior secured unsubordinated obligations of the issuer and rank pari passu with all other obligations secured by the cover pool register. Covered bondholders have recourse to the issuer and--in the event of an issuer insolvency--to the assets comprised in the cover register. As of Sept. 30, 2021, the total cover pool balance is €1,021.4 million, up from €613.25 million at our previous review. The available credit enhancement as of Oct. 31, 2021, stood at 42.08% (down from 78.27% previously).

BWAG collects payments from the cover pool assets in bank accounts held in its name with third-party credit institutions. There are no structural mitigants in place to protect covered bondholders from a deterioration in the credit quality of these credit institutions. Therefore, in our cash flow analysis we have accounted for the risk of loss of collections from the cover assets.

There are no interest swap agreements present in the cover pool register to mitigate interest rate risk arising from differences in the interest received on the cover assets versus the interest payable on the covered bonds. This risk is partially mitigated by the fact that most of the mortgages pay fixed interest rates over a defined term, while the vast majority of current outstanding covered bond interest rates are also fixed.

Table 2

Program Participants

Role	Name	Rating	Rating dependency
Issuer	Bausparkasse Wüstenrot AG	BBB/Stable/A-2	Yes
Originator, servicer	Bausparkasse Wüstenrot AG	BBB/Stable/A-2	No

Rating Analysis

Legal and regulatory risks

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

The Austrian Pfandbriefgesetz (Mortgage Bond Act) provides the framework for BWAG's mortgage covered bonds. Accordingly, the mortgage covered bonds are secured by the cover pool notional comprising residential mortgages loans and substitute assets recorded by the issuer in a cover pool register. In addition, the allocation of mortgages to the cover pool register is indicated in the surety registry (by means of a "Kautionsband") of the land register. Borrowers must be notified before their mortgages are included in the cover pool register. Under the Mortgage Bond Act, 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 cover pool register is monitored by a trustee ("Treuhänder") appointed by the Ministry of Finance. The trustee has to ensure, among other factors, that the prescribed cover for the covered bonds exists at all times and that the assets are recorded correctly. Assets may not be removed from the register without the trustee's approval.

The Mortgage Bond Act provides, among other requirements, that the total volume of mortgages in the cover pool register must at least cover the total nominal amount of the outstanding covered bonds and the interest payable on them. In addition, a minimum overcollateralization of 2% of the nominal value of outstanding covered bonds must be held in the form of eligible substitute cover assets. Substitute assets are limited to 15% of the nominal amount of outstanding covered bonds.

The Mortgage Bond Act does not contain an explicit requirement to cover at least 180 days of liquidity needs through liquid assets nor does it contain provisions for loan-to-value (LTV) criteria. As a building society, BWAG can grant loans up to 80% of the property's market value; however, it adheres to a 60% LTV limit when determining the amount that can be included in the cover pool.

Our analysis of the Mortgage Bond Act concluded that the cover pool register is effectively isolated from the issuer's insolvency estate for the benefit of the covered bondholders. If the issuer becomes insolvent, a court will appoint a cover pool administrator to continue the cover pool's management and to satisfy the covered bondholders' claims. The cover pool assets' protection and the cover pool's continued management allows us to assign a higher rating to the covered bond program than BWAG's creditworthiness.

Operational and administrative risks

Our analysis of operational risk follows the principles laid out in our covered bond ratings framework and our covered bonds criteria.

We have conducted a review of the issuer's origination, underwriting, collection, and default management procedures. We have also reviewed the cover pool register's management and administration. In our opinion, there is no operational risk from the cover pool's management and loan origination that would constrain the covered bond rating to our assessment of the issuer's creditworthiness.

BWAG is subject to specific regulations under the Austrian Building Society Act focused on promoting residential mortgage lending and regular savings. Savings contracts provided by building societies receive a state-backed savings premium.

BWAG uses multiple distribution channels, allowing for a wide customer reach across Austria. Distribution channels include a network of financial advisors, customer service centers, mortgage brokers, and partnerships with various commercial banks. All loan decisions are retained at BWAG.

Under the Austrian Building Society Act, mortgage loans can be offered up to a maximum loan amount of €220,000 per person and a maximum of 80% of a property's market value.

BWAG only grants euro-denominated mortgage loans for properties located in Austria. Mortgage loans can have a maximum maturity of 35 years and are amortizing so that the borrower pays monthly installments of both principal and interest. The interest rate on the mortgage loans is either a floating or fixed rate over a certain term. On average in 2020, newly granted mortgage loans had an amount of €133,720 and a maturity of 30.5 years, with 65.8% having a fixed interest rate for 10 years or more.

BWAG has established internal criteria for loans it considers eligible for cover pool inclusion to maintain the cover pool's credit quality. For example, although it can grant loans up to 80% of a property's market value it voluntarily limits the loan amount for cover pool inclusion to 60% of the property's market value, providing covered bondholders with an additional protection against credit losses in case of borrower default. In addition, loans in arrears for more than 60 days and nonperforming loans are excluded from the cover pool. BWAG has a public commitment to maintain a level of overcollateralization consistent with a 'AAA' rating. We believe these factors together with the ICR on BWAG indicate its commitment and ability to support the covered bonds.

As part of the lending process, BWAG requires proof of income, and it conducts affordability and credit history checks. Each borrower's income development is considered over the loans' life cycle, and borrower credit quality is assessed using the bank's internal scoring system. The average debt servicing ratio in 2020 remained stable at about 31.30% (compared to 30.52% in 2019), and remains well below the Financial Market Stability Board's maximum recommended value of 40% of household net income.

Property valuations are performed offsite by appraisers that are independent from the loan decisions using a software system. Residential property values are reviewed every three years based on the evolution of Austria's house-price index.

Overall, we view BWAG's mortgage underwriting procedures as prudent. It is active predominately in Austria as a well-established specialist in its niche building savings loan business. Its credit risk profile is low, in our view, which is specific to the highly granular and collateralized building savings loan business. This is also supported by low levels of nonperforming loans, which, as of August 2021, stood at 1%.

We have taken these factors into account in our determination of the cover pool's foreclosure frequency in our originator adjustment factor.

We also believe that a replacement cover pool manager could be appointed if the issuer were to become insolvent. We consider Austria to be an established covered bond market, and we believe that the mortgage assets in the cover pool do not comprise product features that would materially limit the range of available replacement cover pool managers or servicers. In addition, in line with our global RMBS criteria we assumed a stressed fee of 35 basis points (bps) in our cash flow analysis, which we believe sufficient to attract a replacement servicer.

Resolution regime analysis

As part of our covered bonds criteria, our analysis considers the resolution regime in place in Austria to determine the RRL. The RRL on BWAG, is 'a-'. We consider the following factors:

- BWAG is domiciled in Austria, which is subject to the EU's Bank Recovery and Resolution Directive (BRRD), which excludes covered bonds from bail-in-able debt.
- We assess the systemic importance for Austrian mortgage covered bonds as very strong.
- Therefore, the RRL is the greater of (1) the ICR on BWAG plus two notches; and (2) the resolution counterparty rating (RCR) on the issuer, where applicable. Because we do not assign an RCR to BWAG, the RRL is 'a-', two notches above the ICR.

This uplift recognizes that 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. This is because the law exempts covered bonds from bail-in 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. This increases the likelihood that an issuer would continue to service its covered bonds without accessing the cover pool or receiving jurisdictional support, even if it were to face failure.

Jurisdictional support analysis

The covered bond program's JRL is 'aa-'. The JRL is our assessment of the likelihood that a covered bond program facing stress would receive support from a government-sponsored initiative instead of liquidating cover assets in the open market.

Our jurisdictional support analysis assesses three factors: the legal framework's strength, the covered bonds' systemic importance, and the sovereign's credit capacity. For Austrian mortgage covered bonds, we assess all three factors as very strong leading to an overall jurisdictional support assessment of very strong. In addition, our sovereign rating on Austria (AA+/Stable/A-1+) does not constrain the JRL. As a result, the covered bonds benefit from three notches of jurisdictional support uplift above the RRL.

Collateral support analysis

Under our collateral support analysis, we determined that the cover pool further enhances the covered bonds' credit quality by four notches above the JRL. Since our previous review, we have updated the analysis of the residential mortgage loans based on the specific adjustments defined for Austria and Germany under our global RMBS criteria (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans," published on Jan. 25, 2019).

The covered bonds' available credit enhancement of 42.08% exceeds the target credit enhancement of 10.51% commensurate with a maximum potential collateral-based uplift of four notches above the JRL. From these four notches, no further reduction applies, owing to BWAG's commitment to maintain a level of overcollateralization commensurate with a 'AAA' rating. In addition, we have not reduced the notches for the lack of 180 days of liquid assets when we assign a covered bond rating that exceeds the foreign currency rating on the sovereign of domicile of the covered bond issuer. This is because our structured finance sovereign risk criteria already limit the number of notches of uplift above the long-term sovereign rating if refinancing risk is not addressed. This results in a four-notch collateral support uplift above the JRL.

Credit risk analysis and cover pool composition

Our collateral support analysis is based on loan-level data as of Sept. 30, 2021. The cover pool register of €1.021.4 million is split into euro-denominated residential mortgage loans (98%) and substitute assets (2%).

The cover pool is purely domestic, regionally diversified, and very granular, with an average loan size of about €145,000 according to our analysis and no major concentrations.

The weighted-average mortgage loan seasoning is about 3.4 years, and the weighted-average original LTV is 73%. Our calculation of original LTV includes the original loan amount, any subordinated loans, any prior-ranking balances, and the reported property valuation at the time of origination.

BWAG voluntarily restricts the LTV to 60% when determining the eligible amount for cover pool inclusion. The cover pool's weighted average current LTV as per our calculation using the reported loan level data is about 57%.

All mortgage loans in the cover pool are amortizing loans with borrowers paying monthly installments of principal and interest.

BWAG removes loans from the cover register if a borrower's performance deteriorates beyond a predetermined threshold as measured by the bank's internal rating of the borrower.

We assess the credit quality of the residential mortgages 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 Sept. 30, 2021, we determined a WAFF of 17.33% (previously 22.4%) and a WALS of 40.76% (previously 39.9%). These measures are based on a 'AAA' stress level. The resulting projected loss figure is therefore 7.06% of the current cover pool balance. The reduction in the WAFF is mainly driven by a lower share of loans for buy-to-let purposes, and the recalibration of the adjustments to the loans' base foreclosure frequency for regional concentrations. Our global RMBS criteria apply a 20% increase to the base foreclosure for regional concentration only to the portion of the loans exceeding the corresponding regional limit—in this case Burgenland (0.24%)--while previously we applied a 10% increase to the entire exposure of loans in the region exceeding the limit (5.34%). In addition, the cover pool's seasoning has increased. The higher the share of loans in the pool with a seasoning greater than five years, the lower the pool's WAFF, all else equal. The share of loans with a seasoning greater than five years is about 23.6% compared to 18.7% in our previous analysis (see table 7). The above factors were partially offset by an increase in second-lien loans.

The increase in the cover pool's WALS is mainly due to the increase in current LTV ratios and a higher share of second- and lower-ranking loans. For these, the corresponding prior-ranking loans often comprise subsidized housing loans.

The small share of substitute assets comprises four Austrian sovereign bonds (rated 'AA+'). We assume these to default in a 'AAA' stress scenario, with a 25% immediate recovery according to our public sector criteria (see "Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities," published on Dec. 9, 2014).

Tables 3-8 show the stratifications of the cover pool according to our analysis.

Table 3

Cover Pool Composition

	As of Sept. 30, 2021		As of Sept. 30, 2020	
Asset type	**Value (€)**	**Percentage of cover pool (%)**	**Value (€)**	**Percentage of cover pool (%)**
Residential mortgages	1,001,259,439.75	98.03	601,104,563	98.02
Substitute assets	20,150,000.00	1.97	12,150,000	1.98
Total	1,021,409,439.75	100.00	613,254.563	100.00

Table 4

Key Credit Metrics

	As of Sept. 30, 2021	As of Sept. 30, 2020
Average loan size in the cover pool (€)	145,179	103,336
Weighted-average whole loan original LTV ratio (%)	72.80	71.60

Table 4

Key Credit Metrics (cont.)

	As of Sept. 30, 2021	As of Sept. 30, 2020
Weighted-average effective loan original LTV ratio (%)*	72.60	N/A
Weighted-average cover pool LTV ratio (%)§	57.10	54.21
Weighted-average loan seasoning (months)†	40.85	38.90
Balance of loans in arrears (%)	0.00	0.05
Second-lien mortgage (% cover pool notional)	27.54	24.25
Self-employed (% cover pool notional)	3.20	2.99
Credit analysis results		
Weighted-average foreclosure frequency (%)	17.33	22.40
Weighted-average loss severity (%)	40.76	39.88
'AAA' credit risk (%)	3.93	4.85

*Calculated weighting 80% of the original LTV and 20% of the current LTV. LTVs are based on the full loan balances secured on the property, including loan parts outside the asset pool and prior- and second-ranking balances if any. §Adjusted for developments in the house-price index. †Seasoning refers to the elapsed loan term. LTV—Loan to value. N/A Not applicable.

Table 5

Cover Pool Assets By Loan Size

	As of Sept. 30, 2021	As of Sept. 30, 2020
(€ '000s)	Percentage of current residential mortgage loan balance	
0-100	14.22	25.11
100-300	69.90	69.89
300-500	13.95	4.58
500-1000	1.93	0.42

Table 6

Loan-To-Value Ratios

As a percentage of the residential mortgage loan balance

	As of Sept. 30, 2021		As of Sept. 30, 2020	
LTV ratios (%)	Effective LTV ratio	Cover pool current LTV ratio	Original loan total balance LTV ratio	Cover pool current LTV ratio
0 - <10	0.05	0.31	0.03	0.38
10 - <20	0.55	1.64	0.52	1.84
20 - <30	1.43	3.22	1.31	4.10
30 - <40	2.65	5.73	3.01	6.98
40 - <50	4.41	15.42	4.49	21.14
50 - <60	6.69	37.74	7.56	45.46
60 - <70	10.23	25.02	10.05	9.84
70 - <80	44.49	2.15	73.03	2.39
80 - <90	25.81	2.33	0.00	2.45
90 - <100	3.62	2.72	0.00	2.73
>100	0.07	3.72	0.00	2.68

LTV--Loan- to-value.

Table 7

Loan Seasoning Distribution*		
	As of Sept. 30, 2021	**As of Sept. 30, 2020**
	Percentage of current residential mortgage loan balance	
Less than 18 months	20.85	16.20
18-60	55.50	65.10
More than 60	23.65	18.69
Weighted-average loan seasoning (months)*	40.85	38.92

*Seasoning refers to the elapsed loan term.

Table 8

Geographic Distribution Of Loan Assets		
	As of Sept. 30, 2021	**As of Sept. 30, 2020**
	Percentage of current residential mortgage loan balance	
Lower Austria (Niederoesterreich)	23.22	23.13
Upper Austria (Oberoesterreich)	17.30	15.07
Carinthia (Kaernten)	12.48	12.55
Styria (Steiermark)	12.85	13.23
Vienna (Wien)	11.43	12.34
Tyrol (Tirol)	9.28	9.52
Salzburg	6.21	6.84
Burgenland	5.24	5.34
Vorarlberg	1.98	1.98

Cash flow analysis

The results of our credit analysis, including the WAFF of 17.33% and weighted-average recovery rate (1-WALS) equivalent to 59.24%, represent inputs to our cash flow analysis. In addition, we have assumed a stressed refinancing spread for the residential mortgages of 425 bps. Our foreclosure period assumption is 30 months.

We stress the cover pool's cash flows, incorporating various default patterns, default timings, interest rate paths, prepayment rates, and delinquency assumptions, which we run at different points over the weighted-average life of the covered bonds. Our cash flow analysis determines the target credit enhancement needed to achieve the maximum potential collateral-based uplift, inclusive of 100% refinancing costs and the credit enhancement required to cover 'AAA' credit risk assuming no asset-liability maturity mismatch.

The cover pool does not include interest rate swaps to mitigate interest rate risk resulting from the differences in interest received on the assets versus the interest payable on the covered bonds. Such risk is partially mitigated by the fact that most of the mortgages (about 73.45%) pay fixed interest rates over a defined term, while most covered bonds (about 94%) also pay a fixed interest rate. Most of the mortgage loans have interest reset dates with embedded caps and floors in their variable phase.

As of Oct. 31, 2021, the weighted-average life of the outstanding covered bonds is 10.6 years, while the weighted-average life of the cover pool assets is 14.8 years. Since our previous review, the asset liability maturity gap has increased to about four years from one year.

In our cash flow analysis, we also sized for the fact that cover pool collections held in third-party bank accounts may be at risk, if not reinvested in cover pool assets or used to make payments on the covered bonds.

We have calculated a 'AAA' credit risk of 3.93% and a target credit enhancement commensurate with the maximum potential collateral-based uplift of four notches of 10.51%. The reduction in both figures since our previous review is driven by the reduction in the WAFF and a lower servicing fee assumption of 35 bps annually for residential loans under our global RMBS criteria, compared to 50 bps previously. As for the target credit enhancement, these factors have partially been offset by the increase in the asset liability maturity mismatch.

With an available credit enhancement of 42.08%, the covered bonds can achieve a potential four-notch collateral-based above the JRL. As outlined in the collateral support analysis section, no further adjustment applies. As a result, the maximum collateral-based uplift is four notches above the JRL (see table 9). The covered bonds use three notches to achieve a 'AAA' rating, resulting in one unused notch of collateral support, which would protect the ratings on the covered bonds in the event of a one-notch issuer downgrade, all else being equal.

Table 9

Collateral Support Uplift Metrics

	As of Sept. 30, 2021	As of Sept. 30, 2020
Asset weighted average maturity (years)	14.77	14.72
Liability weighted-average maturity (years)	10.62	15.76
Maturity gap (years)	4.15	1.04
Available credit enhancement (%)	42.08	78.27
'AAA' credit risk (%)	3.93	4.85
Required credit enhancement for first notch of collateral-based uplift (%)	5.58	6.50
Required credit enhancement for second notch of collateral-based uplift (%)	7.22	8.14
Required credit enhancement for third notch of collateral-based uplift (%)	8.87	9.79
Target credit enhancement for maximum potential collateral-based uplift (%) – credit enhancement required for current rating	10.51	11.43
Potential collateral-based uplift (notches)	4	4
Adjustment for liquidity (Y/N)	N	Y
Adjustment for committed overcollateralization (Y/N)	N	N
Collateral based uplift (notches)	4	3

WAM--Weighted-average maturity.

Counterparty risk

We have identified bank account risk to which the covered bonds are exposed. However, we consider such risk in our cash flow modeling and therefore believe that it does not constrain the ratings on the covered bonds (see "Counterparty Risk Framework: Methodology And Assumptions," published March 8, 2019).

Borrowers effect their payments via direct debit or bank transfer into the accounts held with the account bank providers. BWAG uses these accounts in its normal course of business. Cash collections are accessible at any time, or within a time period of less than seven days.

There is no documented replacement mechanism in place, which would protect the covered bondholders from the bank account providers' credit deterioration. Therefore, we considered the risk that cover pool collections may be lost if they have not been reinvested in cover assets or used to pay the covered bonds.

We have stressed this risk in our analysis by assuming that one month of collections are lost. This assumption considers that most collections are done via direct debit and are spread throughout the month. In addition, BWAG as part of its risk management process monitors its bank accounts to manage the exposure if the counterparty's credit quality deteriorates.

Sovereign risk

Given the long-term sovereign rating on Austria of 'AA+', sovereign risk does not constrain our ratings on the covered bonds under our criteria (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published Jan. 30, 2019).

Under our structured finance sovereign risk criteria, covered bonds issued in a jurisdiction that is within a monetary union that do not include structural coverage of refinancing needs over a 12-month period exhibit moderate sensitivity to country risk. As a result, we can rate the covered bonds up to four notches above the sovereign rating.

Environmental, Social, And Governance (ESG) Factors

Environmental and social factors influence the credit quality of BWAG's cover pool in a broadly similar way as other Austrian mortgage covered bond programs that we rate. The business focuses on private savings and residential mortgage lending. The main mortgage product provides borrowers a secure way of obtaining a mortgage by converting savings (Bausparvertrag) into a mortgage. Combined with a maximum loan size of €220,000 per person, this results in a very granular residential mortgage cover pool. The covered bonds are issued under the Austrian Pfandbriefgesetz (Mortgage Bond Act), which does not require issuers to maintain liquid assets to cover at least 180 days of liquidity needs, which we capture limiting the maximum notches of uplift above the sovereign rating. BWAG commits to maintain a minimum level of overcollateralization that is commensurate with a 'AAA' rating.

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
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: 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
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
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