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Transaction Update: Bausparkasse Wuestenrot AG (Mortgage 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

- Granular, seasoned and geographically diversified cover pool of Austrian residential mortgage loans.
- The covered bonds benefit from two unused notches of collateral-based uplift and a public commitment to maintain a level of overcollateralization commensurate with a 'AAA' rating.
- The cover pool does not contain loans 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 two unused notches 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 up to two notches, 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.

Before July 8, 2022, BWAG issued covered bonds under the Austrian Pfandbriefgesetz (Mortgage Bond Act); Gesetz vom 21. Dezember 1927 über die Pfandbriefe und verwandten Schuldverschreibungen öffentlich-rechtlicher Kreditanstalten. Austria's new Pfandbriefgesetz (Austrian Covered Bond Act) which implements the EU's Covered Bonds Directive entered into force on July 8, 2022. It applies to all covered bonds issued after July 7, 2022. BWAG updated its debt issuance program to reflect the amended legislation and has since issued covered bonds under the new covered bond law.

We consider that the Austrian legal and regulatory framework 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 rate the covered bonds above the long-term ICR on BWAG.

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 and asset and liability cash flow projections as of Sept. 30, 2023, we have assigned three notches of uplift above the JRL. This reflects that the available overcollateralization as of Sept. 30, 2023, of 31.04% exceeds the target credit enhancement of 26.92% 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. We do 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 two are used to achieve a 'AAA' rating. Therefore, the covered bonds have two unused notches of collateral support, which would protect their ratings in the event of an issuer downgrade by up to two notches.

There are no rating constraints to the 'AAA' ratings 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, 2023	
Jurisdiction	Austria
Covered bond type	Legislation-enabled (Austrian Covered Bond Act)
Cover pool assets	Residential mortgage loans and substitute assets
Covered bond rating	AAA/Stable
Cover pool notional amount as of Sept. 30, 2023 (mil. €)	2,033.62
Outstanding covered bonds as of Sept. 30, 2023 (mil. €)	1,551.90
Redemption profile	Hard bullet
Resolution regime uplift	2
Jurisdictional support uplift	3
Unused notches for jurisdictional support	0
Target credit enhancement (%)	26.92
Credit enhancement commensurate with 'AAA' rating (%)	16.26
Available credit enhancement as of Sept. 30, 2023 (%)	31.04
Assigned collateral support uplift	2
Unused notches for collateral support	2
Total unused notches	2

BWAG is an Austrian building society (Bausparkasse) and 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 and education and care related measures. With total assets of €6.86 billion as of year-end 2022, BWAG is a relatively small player in the Austrian market but has an established track record and high market share in its niche building savings loan business.

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. Covered bond issuance is currently limited to 30% of the total balance sheet.

As of Sept. 30, 2023, BWAG has €1,551.9 million of mortgage covered bonds outstanding (up from €1,266.9 million in our 2022 review), backed by a cover pool balance of €2,033.62 million (€1,635.2 million previously). The available credit enhancement as of Sept. 30, 2023, is 31.04%; see "Transaction Update: Bausparkasse Wuestenrot AG (Covered Bonds)," published on Jan. 16, 2023.

BWAG collects payments from the cover pool assets in bank accounts held in its name with third-party credit institutions.

The cover pool register has no interest swap agreements.

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.

Most of BWAG's outstanding mortgage covered bonds were issued under the previous Austrian Pfandbriefgesetz (Mortgage Bond Act) while covered bonds issued from the program after the 7th of July 2022 are issued under Austria's new Pfandbriefgesetz (Austrian Covered Bond Act) which implements the EU's Covered Bonds Directive. The revised law merged the three laws in force prior to July 8, 2022 ("Hypothekenbankgesetz," "Pfandbriefgesetz," and the "Gesetz betreffend fundierte Bankschuldverschreibungen") into one, reducing the legal complexity for Austrian covered bonds. Issuances made before July 8, 2022, are not required to fulfill the requirements of the Austrian Covered Bond Act, and are grandfathered with their original designation.

The covered bonds constitute direct, unconditional, and unsubordinated obligations of the issuer and rank pari passu among themselves and with all other obligations secured by the cover pool register. Covered bondholders and registered derivative counterparties have recourse to the issuer and--in the event of an issuer insolvency--to the assets comprised in the cover register.

The Austrian Covered Bond Act includes--among others--a 180-day liquidity buffer requirement, a 2% minimum 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 a borrower's consent for a loan to be registered as a cover pool asset.

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

Under the Austrian Covered Bond Act, loan-to-value (LTV) ratio limits can be deduced from the reference of eligible cover assets to CRR Art 129 (1), including an LTV limit of 80% of the value of the property for residential real estate, and 60% for commercial real estate. For commercial real estate, a limit of up to 70% is also possible. At the same time, issuers can set lower LTV ratio limits 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 for receivables arising under one and the same master agreement.

From our legal analysis of the Austrian Covered Bond Act, we conclude that it addresses the main legal aspects that we assess in a covered bond legislation. Our analysis 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 bankruptcy court, after consultation with the Austrian regulator (the Financial Market Authority) 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 allow us to assign a higher rating to the covered bond program than our long-term ICR on BWAG.

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 the same level as our long-term ICR on BWAG.

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 €260,000 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 2022, newly granted mortgage loans had an amount of €192,912 and a maturity of 28.1 years, with 85.8% 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 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.

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 2022 was about 31.4% (compared to 32.6% in 2021) and remains well below the Financial Market Stability Board's maximum 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 annually based on the evolution of Austria's house-price index.

Overall, we view BWAG's mortgage underwriting procedures as prudent. It is active exclusively 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.

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, 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

Our collateral support analysis is based on loan-level data as of Sept. 30, 2023. The cover pool's register of €2,033.62 million contains euro-denominated residential mortgage loans (98.3%) and substitute assets (1.7%).

Our analysis of the residential mortgage loans is based on the specific adjustments defined for Austria under our global residential loans criteria (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans," published on Jan. 25, 2019). We analyze the small share of substitute assets under 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).

The cover pool is purely domestic, regionally diversified, and granular, with an average loan size of about €159,000 (by borrower and current balance) according to our analysis and no major concentrations. The weighted-average mortgage loan seasoning is about four years, and the weighted-average original LTV ratio is 73%. Our calculation of the original LTV ratio 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 ratio to 60% when determining the eligible amount for cover pool inclusion. The cover pool's weighted-average current LTV ratio calculated using the reported loan-level data is about 48.5%.

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

For the residential loans in the pool, our analysis estimated the foreclosure frequency and the loss severity in a 'AAA' stress scenario and, by multiplying the foreclosure frequency by the loss severity, the potential loss associated with each loan in the pool. 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 the weighted-average foreclosure frequency (WAFF) and weighted-average loss severity (WALS) estimates the required loss protection, assuming all other factors remain unchanged. We assume that the probability of foreclosure is a function of both borrower and loan characteristics and will become more likely--and the realized loss on a loan more severe--as the economic environment deteriorates.

At a 'AAA' level of stress, as of Sept. 30, 2023, we determined a WAFF of 14.79% (previously 16.05%) and a WALS of 33.47% (previously 39.46%). The combination of the WAFF and WALS as measure of the cover pool's overall credit quality (credit coverage: WAFF x WALS) has decreased to 4.95% from 6.33% previously. The lower WAFF is mainly due to decreased effective LTV ratios and increased loan seasoning. The higher the share of loans in the pool with a seasoning exceeding five years, the lower the pool's WAFF, all else being equal. The share of loans with a seasoning exceeding five years is about 31% compared to 27% in our previous analysis (see table 6). The cover pool's WALS reduced due to lower current LTV ratios and a lower share of loans backed by properties exceeding our jumbo valuation limits, which follows our increase of the jumbo valuation limits for Austria under our residential loans criteria.

The small share of substitute assets comprises Austrian sovereign bonds (rated 'AA+'). In accordance with our public sector criteria, we assume these to default in a 'AAA' stress scenario, with a 25% immediate recovery--unless these investments comply with our temporary investment criteria (see "Global Investment Criteria For Temporary Investments In Transaction Accounts," published May 31, 2012).

Tables 3-7 show the cover pool's stratifications according to our analysis.

Table 3

Cover pool composition

	As of Sept. 30, 2023		As of Sept. 30, 2022	
Asset type	**Value (€)**	**Percentage of cover pool**	**Value (€)**	**Percentage of cover pool**
Residential mortgages	1,999,467,656.19	98.32	1,601,002,428.45	97.91
Substitute assets	34,150,000.00	1.68	34,150,000.00	2.09
Total	2,033,617,656.19	100	1,635,152,428.45	100

Table 4

Key credit metrics

	As of Sept. 30, 2023	As of Sept. 30, 2022
Average loan size in the cover pool (per borrower based on current loan balances €)	159,442	154,306
Weighted-average whole loan original LTV ratio (%)	72.67	73.11
Weighted-average effective loan original LTV ratio (%)*	70.36	71.89
Weighted-average cover pool LTV ratio (%)§	48.54	52.31
Weighted-average loan seasoning (months)†	48.61	44.07
Balance of loans in arrears (%)	0.00	0.00
Second-lien mortgage (% cover pool notional)	26.97	25.89
Self-employed (% cover pool notional)	3.13	3.12
Credit analysis results		
Weighted-average foreclosure frequency (%)	14.79	16.05
Weighted-average loss severity (%)	33.47	39.46
'AAA' credit risk (%)	4.95	5.29

*Calculated weighting 80% of the original LTV ratio and 20% of the current LTV ratio. LTV ratios 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.

Table 5

LTV ratios

As a percentage of residential mortgage loan balance

	As of Sept. 30, 2023		As of Sept. 30, 2022	
LTV ratios (%)	**Effective whole loan LTV ratio**	**Cover pool current LTV ratio**	**Effective whole loan LTV ratio**	**Cover pool current LTV ratio**
[0 – 40]	4.89	26.76	4.58	17.49
(40 – 50]	4.96	31.74	4.22	27.55
(50 – 60]	7.65	22.04	6.89	31.66
(60 – 70]	12.78	11.34	10.90	14.47
(70 – 80]	53.87	2.84	51.87	2.24
(80 – 90]	14.04	2.23	18.63	2.39
(90 – 100]	1.75	1.32	2.87	2.19
>100	0.06	1.73	0.04	2.01

LTV--Loan-to-value.

Table 6

Loan seasoning distribution*

	As of Sept. 30, 2023	As of Sept. 30, 2022
	Percentage of current residential mortgage loan balance	
>0 and <=2years	21.22	26.66
>2 and <=4 years	36.56	34.24
>4 and <=5 years	11.13	11.75
>5 and <=6 years	9.38	10.07
>6 and <=7 years	8.12	8.24
>7 and <=8 years	6.54	6.72
>8 and <=9 years	5.23	2.29
>9 and <=10 years	1.80	0.01
>10 years	0.02	0.01
Weighted-average loan seasoning (months)*	48.61	44.07

*Seasoning refers to the elapsed loan term.

Table 7

Geographic distribution of loan assets

	As of Sept. 30, 2023	As of Sept. 30, 2022
	Percentage of current residential mortgage loan balance	
Lower Austria (Niederoesterreich)	22.47	22.39
Upper Austria (Oberoesterreich)	19.29	18.69
Carinthia (Kaernten)	12.04	12.08
Styria (Steiermark)	12.76	12.94
Vienna (Wien)	11.06	12.00
Tyrol (Tirol)	9.50	9.27
Salzburg	5.92	6.08
Burgenland	5.16	4.81

Table 7

Geographic distribution of loan assets (cont.)

	As of Sept. 30, 2023	As of Sept. 30, 2022
Vorarlberg	1.80	1.74

The results of our credit analysis, including the WAFF and WALS, represent inputs to our cash flow analysis. We stress the cover pool's cash flows, incorporating various default patterns, default timings, various interest rate stresses, prepayment rates, and delinquency assumptions.

The structure is exposed to an asset-liability maturity mismatch because the covered bonds' repayment profile is not aligned with that of the assets. Our model simulates a stressed sale of assets whenever a liquidity gap occurs in our analysis. The adjustment applied for the residential mortgages is 425 bps on top of the stressed interest rate at the time of the shortfall.

As of Sept. 30, 2023, the weighted-average maturity of the covered bonds was 6.9 years, while the weighted-average maturity of the cover pool assets was 15.5 years. Since our previous review, the asset-liability maturity mismatch has increased to about 8.6 years from 6.8 years.

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 the 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 (79.5%) pay fixed interest rates over a defined term before switching to a floating rate, while most covered bonds (97%) also pay a fixed interest rate. Most of the mortgage loans have interest reset dates with embedded caps and floors in their variable phase.

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 5.59% and a target credit enhancement commensurate with the maximum potential collateral-based uplift of four notches of 26.92%. The higher target credit enhancement since our previous review is mainly due to the increased asset-liability maturity mismatch. In addition, 'AAA' credit risk and the target credit enhancement increased due to lower excess spread in the program. The issuance of fixed-rate paying covered bonds with a higher coupon since our previous review has increased the weighted-average coupon payable on the fixed-rate paying bonds (97%) while the interest received on the predominantly fixed-rate paying assets (79.5%) remained largely stable. At the same time, the spread above the index on the floating-rate paying assets (20.5%) has reduced. Therefore overall, the difference between the interest generated by the assets and the interest payable on the covered bonds (excess spread) has reduced.

With an available credit enhancement of 31%, the covered bonds can achieve a potential four-notch collateral-based uplift above the JRL. As outlined above (see "Rationale"), no deduction applies resulting in a maximum collateral-based uplift of four notches above the JRL (see table 8). The covered bonds use two notches to achieve a 'AAA' rating, resulting in two unused notches of collateral support. The overcollateralization commensurate with a 'AAA' rating is 16.26%, determined by 'AAA' credit risk plus 50% refinancing costs.

Table 8

Collateral support uplift metrics

	As of Sept. 30, 2023	As of Sept. 30, 2022
Asset weighted-average maturity (years)	15.50	14.56
Liability weighted-average maturity (years)	6.91	7.78
Maturity gap (years)	8.59	6.78
Available credit enhancement (%)	31.04	29.07
'AAA' credit risk (%)	5.59	5.29
Required credit enhancement for first notch of collateral-based uplift (%)	10.92	8.65
Required credit enhancement for second notch of collateral-based uplift (%)	16.26*	12.01
Required credit enhancement for third notch of collateral-based uplift (%)	21.59	15.37
Target credit enhancement for maximum potential collateral-based uplift (%)	26.92	18.73
Potential collateral-based uplift (notches)	4	4
Adjustment for liquidity (Y/N)	N	N
Adjustment for committed overcollateralization (Y/N)	N	N
Collateral based uplift (notches)	4	4

WAM--Weighted-average maturity.
*Credit enhancement required for 'AAA' rating.

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.

There is no documented replacement mechanism in place, which would protect the covered bondholders from the bank account providers' credit deterioration. Therefore, in our cash flow analysis 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 considering the issuer's monthly overcollateralization reporting and assuming that half a month of collections are lost. This assumption also 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

Environmental, social, and governance (ESG) considerations have no material influence on our credit rating analysis of the mortgage covered bonds. 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 €260,000 per person, this results in a very granular residential mortgage cover pool. 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
- Criteria | Structured Finance | Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Criteria | Structured Finance | Covered Bonds: Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities, Dec. 9, 2014
- Criteria | Structured Finance | Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Global Covered Bond Insights Q1 2024, Dec. 15, 2023
- S&P Global Ratings Definitions, June 9, 2023
- Bausparkasse Wuestenrot AG, May 26, 2023
- Transaction Update: Bausparkasse Wuestenrot AG (Covered Bonds), Jan. 16, 2023

- Glossary Of Covered Bond Terms, April 27, 2018