



Latin America Structured Finance Surveillance Chartbook

October 2022

S&P Global
Ratings

LATAM Structured Finance

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This report does not constitute a rating action

Outlook For Structured Finance

- In line with other asset classes, structured finance issuance in Latin America has slowed down relative to last year.
- As of Sept. 30, 2022, we estimate that structured finance market-wide issuance in Argentina, Brazil, Mexico, and the cross-border market totaled about \$18 billion. Our full-year forecast is now \$25 billion.
- Brazilian new issuance has been strong, particularly through repackaged securities or corporate-backed CRAs and CRIs, and it continues to drive new issuance in the region. Meanwhile, Mexican and Argentine ABS issuance totaled about \$0.3 billion and \$0.7 billion, respectively. We expect new issuance volumes to remain strong in Brazil in the second half of the year, despite the elections in October.
- The default of the largest Mexican non-banking financial institution over the past 18 months is a challenge for the ABS equipment sector. However, the performance of their securitizations has been steady. Therefore, we believe that originators should be able to continue to tap the securitization market in the coming months.
- Despite the very challenging economic environment, we continue to observe issuance in the ABS space in Argentina. Derived from our observations over the last two years, we have raised the maximum potential rating in some asset classes.
- Ratings performance has been stable year to date and there are few ratings on CreditWatch, which we believe reflects strong collateral performance across the region. Nevertheless, we are on the lookout for potential weakness given the challenging macroeconomic environment.

Macroeconomic Highlights And Credit Conditions

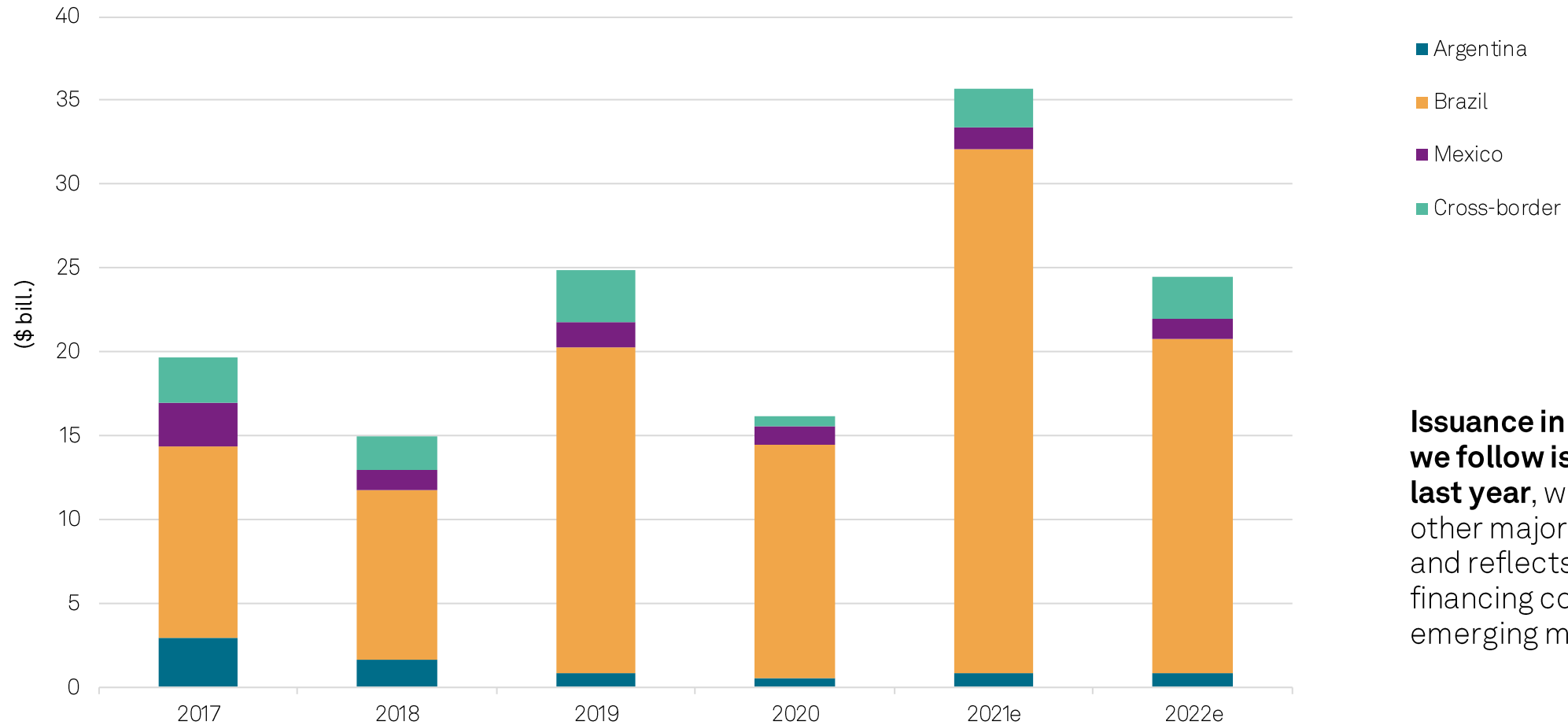
- Tightening financing conditions, slower growth in China, weaker economic prospects in Europe, and a potentially deeper recession in the U.S. than projected signal tough times ahead for emerging markets.
- Most of the major Latin American economies performed better than expected in 2022, in many cases growing above-trend because of resilient domestic demand and an uptick in exports. As a result, we revised our 2022 GDP growth forecast for the region to 2.8% from 2.0% previously.
- We expect Latin American economies to shift into low-trend growth by the end of 2022 and into 2023 as more challenging external dynamics weaken exports in the region and waning confidence takes a toll on domestic demand. We now project Latin America to expand by 0.9% in 2023, compared with our previous 1.8% assumption.
- Uncertainty over the trajectory of the U.S. economy, with a shallow recession now expected in first-half 2023, is a key downside risk to our GDP growth forecasts in Latin America.
- In light of the challenging macroeconomic environment, we maintain our related current base-case adjustments in the ABS asset classes and maintain our foreclosure frequencies in the RMBS asset classes.

Latin America: GDP Growth And S&P Global Ratings' Forecasts

Latin America: GDP Growth And S&P Global Ratings' Forecasts*						
(%)	2020	2021	2022(F)	2023(F)	2024(F)	2025(F)
Argentina	(9.9)	10.4	3.3	1.0	1.0	2.0
Brazil	(4.2)	4.9	2.5	0.6	0.6	2.1
Chile	(6.2)	11.9	2.4	0.3	0.3	2.8
Colombia	(7.0)	10.7	6.5	1.9	1.9	3.3
Mexico	(8.2)	5.0	2.1	0.8	0.8	2.1
Peru	(11.0)	13.5	2.2	2.5	2.5	3.3
LatAm 6**	(6.5)	6.7	2.8	0.9	0.9	2.3

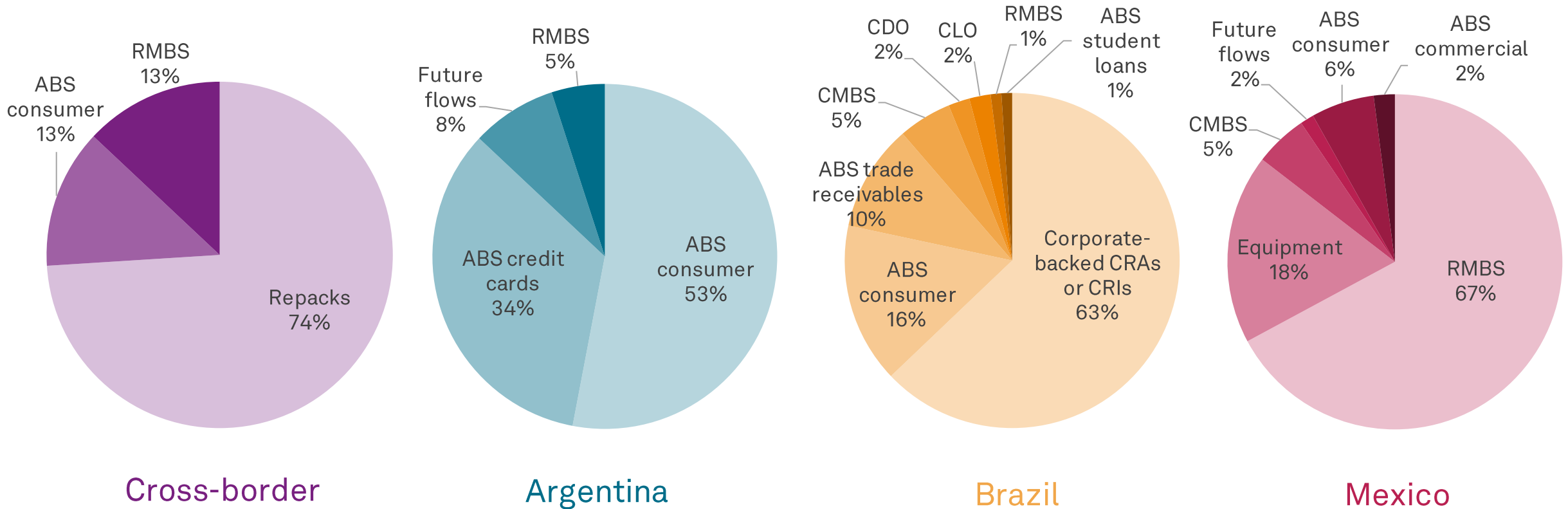
Source: S&P Global Ratings. *The Latin America GDP aggregate forecasts are based on purchasing power parity GDP weights. **LatAm 6 reflects the combination of Argentina, Brazil, Chile, Columbia, Mexico, and Peru. F--S&P Global Ratings' forecast.

Structured Finance Issuance Could Reach \$25 Billion In 2022



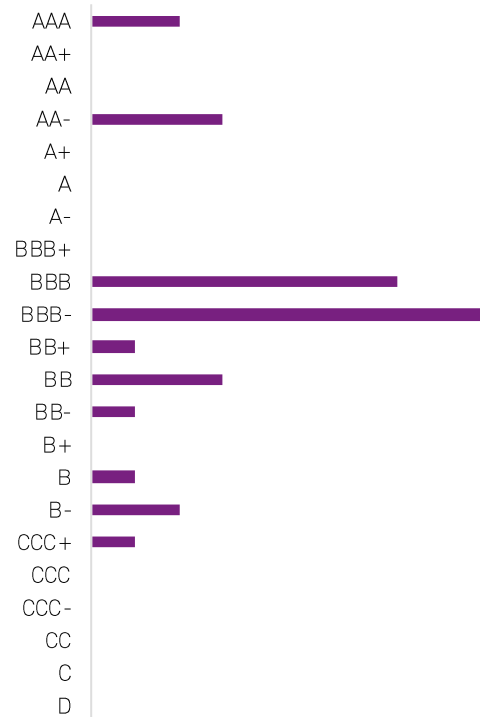
Issuance in the markets that we follow is down relative to last year, which is in line with other major asset classes and reflects worsening financing conditions for emerging market issuers.

S&P Global Ratings' Rated Portfolio Composition By Asset Type

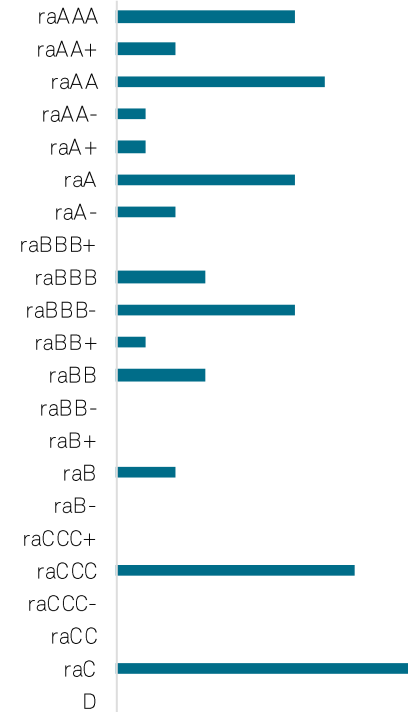


S&P Global Ratings' Portfolio Composition By Rating

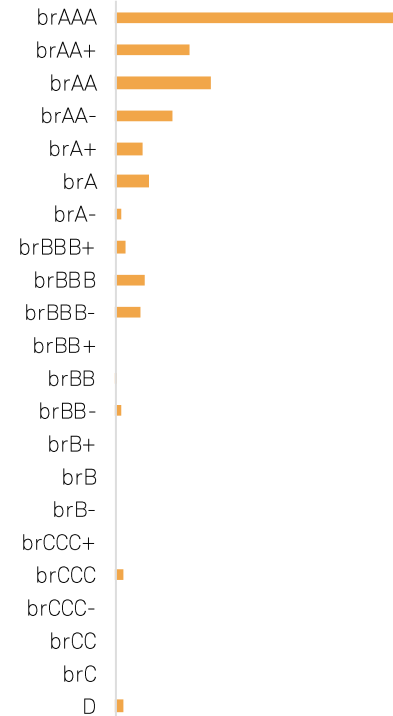
Cross-border



Argentina



Brazil



Mexico



- The credit quality of our rated universe in the region is high, and the majority of ratings remain at the higher end of our national scales in Argentina, Brazil, and Mexico.
- The majority of ratings on the lower end of the national scale in Argentina correspond to the most subordinate tranches or residuals.
- Cross-border ratings are concentrated in the 'BBB' rating category.

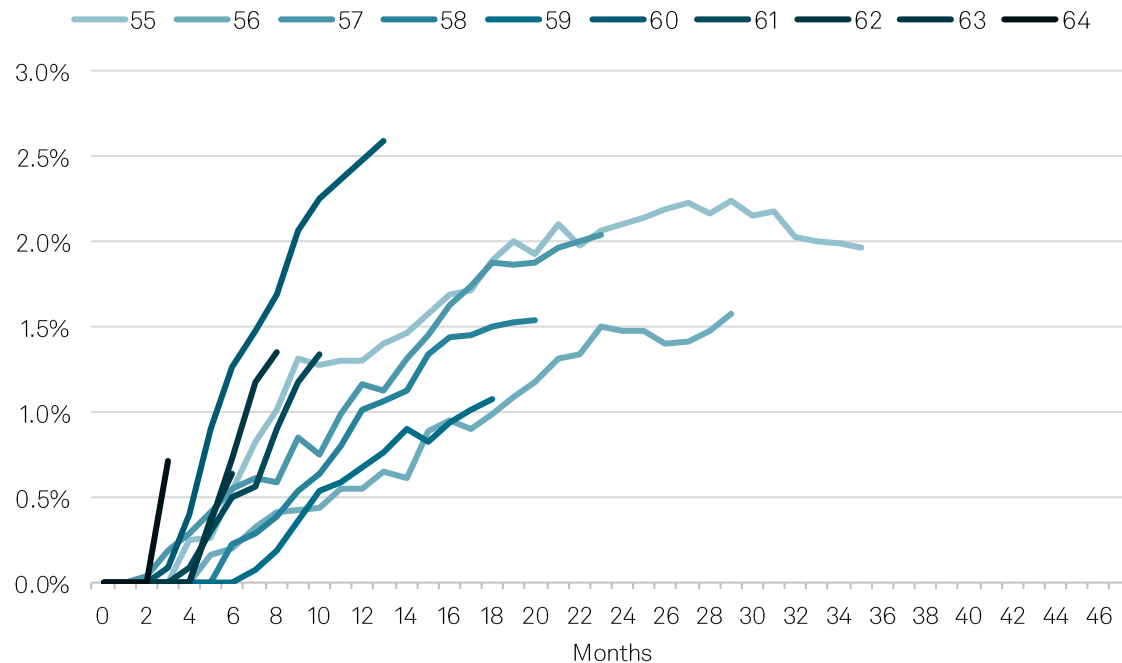
Argentina Asset Performance Remains In Line With Expectations

Personal loans: Performance has been solid and stable during the year, below historical peaks. These loans are granted mostly to public employees and are collected through payroll deduction from their salaries.

Credit cards: Charged-off credits remain low in Argentina after peaking during the early part of the COVID-19 pandemic. Credit card companies quickly adapted their underwriting standards to only originate to clients with good track records and performance history in order to cope with increased losses.

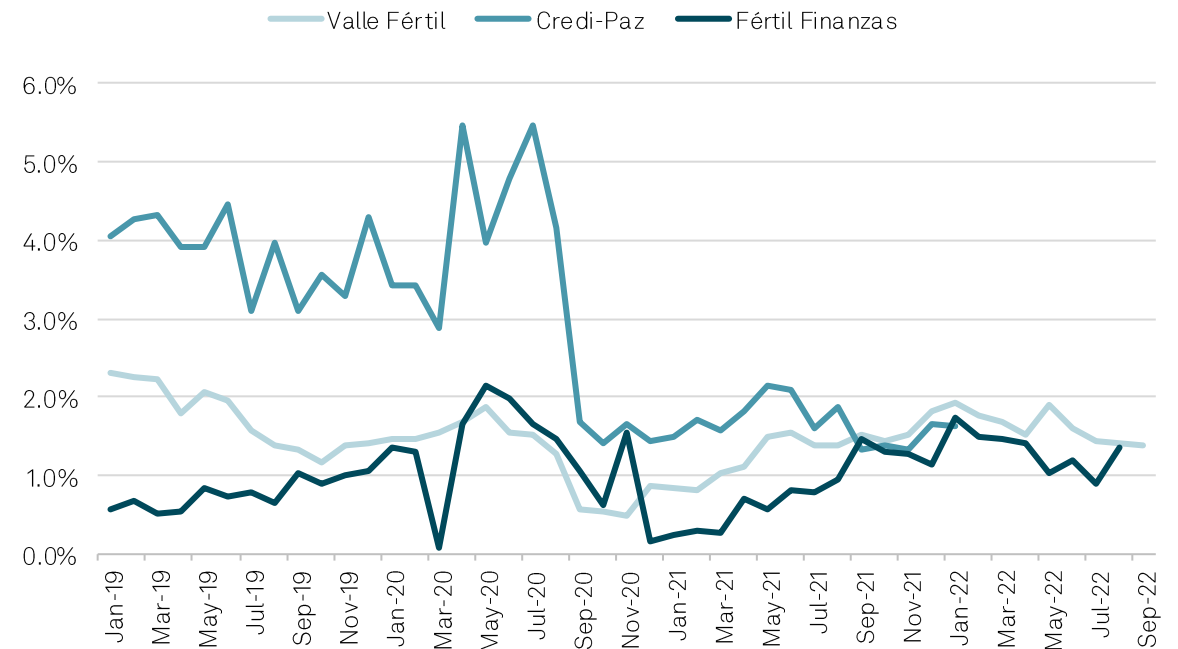
ABS Personal Loans--Delinquencies > 90 Days

Fideicomisos Financieros Red Mutual's outstanding series



ABS Credit Cards--Charged-Off Credits

Select credit card companies



Brazil Performance Remains Resilient So Far

Collateral performance for the trade receivable asset class has maintained its recovery in 2022 after the effects of the COVID-19 pandemic. Nonetheless, there are signs of increasing delinquencies in second-half 2022, which presents a more challenging scenario. We have observed some players adopting more conservative origination policies, thus lowering the average loan term and migrating to more defensive sectors.

Consumer loans are being more affected by high inflation rates and higher interest costs; therefore, performance could be subject to some weakness, mainly those exposed to classes C and D. However, protection levels for senior tranches has proved adequate so far, with losses being covered by excess spread and the subordinated tranches' yields.

Also, these risk factors could be somewhat offset in the short term by government-sponsored relief programs. Other asset types, such as payroll deductible loans, remain stable.

The home equity market is growing in the region, with fintechs originating and securitizing this type of loan.

ABS Trade Receivables--Delinquencies > 60 Days*



*Average delinquencies of rated portfolios. Daily data interpolated when not available.

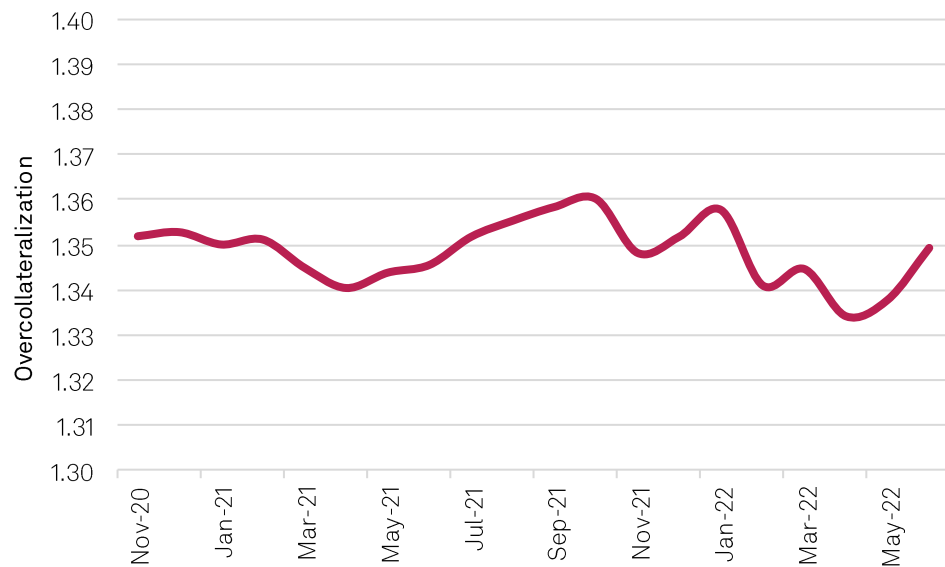
Mexico Asset And Ratings Performance Stability Should Continue

Although Mexican NBFIs (non-banking financial institutions) have been experiencing challenging financing conditions, credit enhancement levels of equipment ABS transactions backed by collateral originated by them have remained stable. In addition, the transactions' cash reserves to cover expenses and interest, as well as the accelerated amortization events of these transactions, have helped strengthen these structures. As of June 2022, credit enhancement levels of equipment ABS transactions, on average, remained flat at 1.35x, in line with the figure observed in June 2021. We expect equipment-backed deals to continue presenting stable protection levels for the remainder of the year.

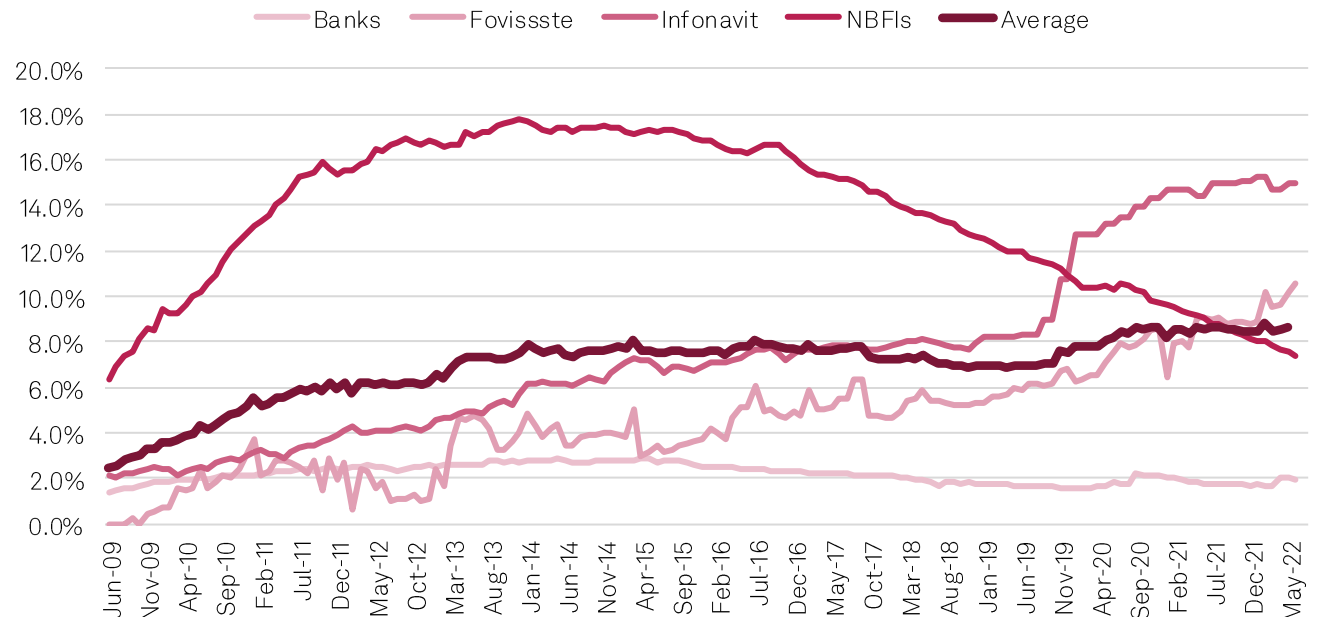
Aggregate non-performing loans on RMBS transactions remained stable, reaching 8.7% on average as of June 2022. Considering performance by sector, defaults on deals from banks and NBFIs have remained stable during the first-half 2022, averaging 1.9% and 7.4%, respectively, as of June 2022. In addition, deals from Infonavit and Fovissste continue to present the largest deterioration as a result of higher unemployment rates during the last two years, with defaults averaging 14.9% and 10.5%, respectively, as of June 2022. However, we expect these transactions to continue to present increasing credit enhancement levels, which has helped support the current ratings.

ABS Equipment

Average overcollateralization



RMBS Non-Performing Loans--Delinquencies > 90 Days



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