

**UPDATE 1-Moody's downgrades Austrian banks on Hypo loss law worries**

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* Moody's cites "unprecedented" move by Austrian government

* Sees increased risk Vienna could hit senior bank creditors

* Kommunalkredit disputes Moody's rationale, cancels most ratings (Adds details, Kommunalkredit reaction)

VIENNA, June 20 (Reuters) - Ratings agency Moody's Investors Service downgraded several Austrian banks on Friday on concerns about a draft law unveiled this month that imposes losses on subordinated debtholders in nationalised lender **Hypo Alpe Adria** despite guarantees from its home province of Carinthia.

"The unprecedented nature of the government's decision to place taxpayers' interests above the rights of creditors who had previously benefited from a public sector guarantee indicates, in Moody's opinion, that Austrian authorities are now generally more willing to countenance bank resolutions in which losses may also be imposed on senior creditors," it said in a statement.

Other ratings agencies have taken similar action in response to the law, which a top banker said this week could boost Austrian banks' borrowing costs by 1.5 billion euros (\$2 billion) a year.

Nationalised lender Kommunalkredit Austria (KA) took issue with Moody's rationale and cancelled nearly all its Moody's ratings in a growing row.

"In the view of KA and the Republic of Austria, the above mentioned draft legislation, which is still subject to the parliamentary legislative process ... does not indicate a change in the support propensity of the Republic of Austria," KA said.

KA is withdrawing all Moody's ratings for unsecured funding instruments with immediate effect, except for its current covered bond rating of Aa2, it said in a statement.

"The decision is due to differences in opinion between the bank and Moody's regarding the - according to Moody's - reduced support propensity by the Republic of Austria" for KA, in which it holds 99.8 percent, it said.

Ratings agencies have taken the draft law approved last week as a sign the government is less likely to keep supporting banks that may need state aid. It annuls 890 million euros in subordinated Hypo debt despite guarantees from the bank's home province of Carinthia, an unprecedented move in Europe.

Austrian officials have called the law custom-tailored to ensure investors in Hypo - and not just taxpayers - help pay for winding it down.

KA posted a 2013 profit of 5.1 million euros and expects to stay in the black in the first half, it said.

(\$1 = 0.7366 Euros) (Reporting by Michael Shields; editing by Keiron Henderson and David Evans)

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