

## **Fitch Affirms Realkredit Capital Centre T at 'AA+'; Outlook**

**Stable** [Ratings](#) [Endorsement Policy](#)

17 Sep 2014 1:11 PM (EDT)

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Fitch Ratings-London-17 September 2014: Fitch Ratings has affirmed Realkredit Danmark's (Realkredit) Capital Centre T covered bonds at 'AA+' with a Stable Outlook. The rating action follows the issuance of covered bonds incorporating the changes in the Danish legislation earlier this year.

The amended Danish covered bond legislation applies a mandatory maturity extension to the covered bonds issued after March 2014, which have a shorter maturity than underlying loans.

### **KEY RATING DRIVERS**

The rating is based on Realkredit's Long-term Issuer Default Rating (IDR) of 'A', a Discontinuity Cap (D-Cap) of 2 (high risk) and the 11.5% overcollateralisation (OC), which provides more protection than the 11% breakeven OC for the rating.

The new Danish legislation introduces mandatory maturity extensions for Danish mortgage bonds that are secured by mortgage loans with longer maturities than the bonds. The extension can be triggered upon two events: i) if a refinancing auction fails for all bonds or ii) if the interest on the mortgage bonds rises by more than 5 percentage points within a year (only for bonds with an original maturity of up to 2 years). Between March 2014 and January 2015, the changes only apply to one-year bonds, after which they will apply to bonds with longer maturities as well.

The maturity extension addresses the reliance of the issuer to refinance on highly concentrated refinancing dates in order to repay the covered bonds. In Fitch's analysis, this liquidity risk is captured by restricting the liquidity gap and systemic risk component of the D-Cap to 2 (high risk), which is also the weakest link for Realkredit's Capital Centre T D-Cap.

Until all bonds issued prior to April 2014 have matured, the Capital Centre T will contain bonds with and without the extendible feature. Investors would have to rely heavily on the alternative manager to allocate the available funds should the issuer default, as this is not clearly outlined in the legislation for this interim period. Fitch expects that by 2017 less than 10% of the bonds in Capital Centre T will not have the extension feature.

Once the bonds have the extension feature, then upon the trigger of maturity extensions, the impacted covered bonds would effectively become pass-through bonds, mitigating the need to sell assets to meet the principal due at the bonds at their maturity dates. Fitch will reassess the liquidity gap and systemic risk D-Cap component once the majority of the bonds within the capital centre have the extension feature.

### **RATING SENSITIVITIES**

The covered bonds' rating would be vulnerable to a downgrade if any of the following occurred: (i) Realkredit's IDR was downgraded by one notch or more; or (ii) the D-Cap fell by one category or more; or (iii) the OC that Fitch takes into account in its analysis fell below 11%.

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Additional information is available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable criteria, 'Covered Bonds Rating Criteria', dated 8 August 2014, 'Counterparty Criteria for Structured Finance and Covered Bonds' and 'Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum', both dated 14 May 2014, 'Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds' dated 23 January 2014, 'Covered Bonds Rating Criteria - Mortgage Liquidity and Refinance Stress Addendum' dated 4 February 2014, 'EMEA RMBS Master Rating Criteria' dated 28 May 2014, 'EMEA Residential Mortgage Loss Criteria', dated 28 May 2014, 'Criteria for the Analysis of Commercial Real Estate Loans Securing Covered Bonds' dated 22 May 2014 are available on [www.fitchratings.com](http://www.fitchratings.com).

**Applicable Criteria and Related Research:**

[Covered Bonds Rating Criteria](#)

[Counterparty Criteria for Structured Finance and Covered Bonds](#)

[Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum](#)

[Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds](#)

[EMEA RMBS Master Rating Criteria](#)

[EMEA Residential Mortgage Loss Criteria](#)

[Criteria for the Analysis of Commercial Real Estate Loans Securing Covered Bonds](#)

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