



Tagging Info

Fitch Affirms Realkredit Danmark's Capital Centres S & T Covered Bonds

Ratings Endorsement Policy
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Fitch Ratings-London-01 April 2015: Fitch Ratings has affirmed Realkredit Danmark A/S's (Realkredit, A/Stable/F1, Viability Rating: a) mortgage covered bonds issued out of Capital Centre (CC) S at 'AAA', and CC T at 'AA+'. The Outlooks are Stable. The rating actions follow an annual review of the programmes. As of 31 December 2014, CC S had DKK226bn and CC T DKK431bn of covered bonds outstanding.

KEY RATING DRIVERS

CC S covered bonds' rating is based on Realkredit's Long-term Issuer Default Rating (IDR) of 'A', an unchanged Discontinuity Cap (D-Cap) of 3 (moderate high risk) and the 11.0% overcollateralisation (OC) that Fitch takes into account in its analysis, which provides more protection than the 8% 'AAA' breakeven OC.

CC T covered bonds' rating is based on Realkredit's Long-term IDR of 'A', an unchanged D-Cap of 2 (high risk) and the 11.5% OC that Fitch takes into account in its analysis, which provides more protection than the 8% 'AA+' breakeven OC.

The Stable Outlook on the covered bonds' ratings is mainly driven by the Stable Outlook on Realkredit's IDR.

CC S 'AAA' breakeven OC has decreased to 8% from 10.5% and CC T 'AA+' breakeven OC to 8% from 11.5% due to: (i) a higher proportion of fixed rate assets for CC S and a larger proportion of assets with interest reset dates longer than one year in CC T; (ii) a reduction in Fitch's assumptions on the minimum probability of default (PD) applied to commercial assets (to 0.75% from 1%) to reflect the good historical performance of Realkredit's commercial assets. Notably, a large proportion of the loans in the portfolios are multifamily and cooperative housing, the performance of which has been stronger than the assets typically assessed under the SME CLO criteria to which the 1% is usually applied.

CC S and CC T cover assets contain 64% and 55% residential assets and 36% and 45% commercial assets, respectively. The residential mortgage loan asset analysis for both CCs was assessed using the Criteria Addendum - Denmark Residential Mortgage Loss and Cash Flow Assumptions', dated 12 December 2014. To ensure idiosyncratic risks are adequately protected against, the 'AAA' expected loss for CC S has been floored at 4% in line with Fitch's EMEA Residential Mortgage Loss Criteria dated 28 May 2014.

The breakeven OC for both covered bond programmes remains driven by the credit risk of the pool (9.5% at 'AAA' for CC S and 11.5% at 'AA+' for CCT) as Fitch does not model a fire sale of the assets in its cash flow analysis, but instead considers the possibility of bond refinancing post insolvency. However, in the recovery rate analysis, Fitch assumes that the cover pool would be sold below its par value. The breakeven OCs for the ratings are below the credit loss components because of the excess spread available in both CCs and because Fitch gives credit to recoveries for two notches above the tested rating on a PD basis.

The unchanged D-Caps are driven by the liquidity gap and systemic risk components, which are the weakest of the D-Cap components for both CCs, both of which are not fully protected against refinancing risk. Refinancing risk is higher in CC T, as it solely contains covered bonds without maturity matching assets. The risk is reducing over time since the change in legislation in March 2014 to include a mandatory maturity extension for bonds secured by mortgage loans with longer maturities than bonds. However, this provision only applies to bonds issued after March 2014.

Fitch currently provides no IDR uplift to the covered bonds as according to the European Bank Recovery and Resolution Directive (BRRD), covered bonds from specialised mortgage institutions that do not take deposits

could bear losses in a resolution. However, Fitch will re-assess its position once the BRRD is implemented into Danish legislation.

RATING SENSITIVITIES

The covered bonds' ratings 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 8% for CC S and 8% for CC T.

CC T covered bonds could be upgraded when more than 90% of the bonds have the new mandatory maturity extension feature as it will improve the liquidity risk.

The Fitch breakeven OC for the covered bond ratings will be affected, among others, by the profile of the cover assets relative to outstanding covered bonds, which can change over time, even in the absence of new issuance. Therefore the breakeven OC for the ratings cannot be assumed to remain stable over time.

More details on the cover pool and Fitch's analysis will be available in a credit update, which will shortly be available at www.fitchratings.com.

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Additional information is available at 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; 'EMEA RMBS Master Rating Criteria', dated 28 May 2014; 'EMEA Residential Mortgage Loss Criteria', dated 28 May 2014; 'Criteria for Rating Granular Corporate Balance-Sheet Securitisations (SME CLOs)', dated 6 March 2015; 'Criteria for Sovereign Risk in Developed Markets for Structured Finance and Covered Bonds', dated 20 February 2015; 'Criteria Addendum - Denmark Mortgage Loss and Cash Flow Assumptions', dated 12 December 2014, 'Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds', dated 19 December 2014 and 'Covered Bonds Rating Criteria - Mortgage Liquidity and Refinancing Stress Addendum', dated 16 February 2015 are available at 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
EMEA RMBS Master Rating Criteria
EMEA Residential Mortgage Loss Criteria
Criteria for Rating Granular Corporate Balance-Sheet Securitisations (SME CLOs)
Criteria for Sovereign Risk in Developed Markets for Structured Finance and Covered Bonds
Criteria Addendum: Denmark

Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds
Covered Bonds Rating Criteria – Mortgage Liquidity and Refinancing Stress Addendum

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