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Statement on inspection at Realkredit Danmark A/S

1. Scope of the inspection

The Danish Financial Supervisory Authority (the Danish FSA) conducted an inspection at Realkredit Danmark A/S (Realkredit Danmark) from 16 to 25 August 2021.

The Danish FSA reviewed the institution's owner-occupied home model for determining loan limits, including relevant policies, business procedures for using the model and also reporting and validation.

The Danish FSA also reviewed a sample of 200 property valuations, of which 27 were selected for physical control.

2. Summary and risk assessment

Realkredit Danmark is characterised by having the widest framework for using property valuation models among mortgage credit institutions. For example, there are no limits to the amount to which the model is applicable, and the institution does not require re-inspection of properties at fixed intervals. Overall, these factors involve significant model risk for the institution, which also calls for risk-mitigating measures in relation to the use of the model.

In the valuation area, no segregation of duties was observed between staff performing valuations for determining loan limits and staff performing internal controls. Moreover, at the time of inspection, the Realkredit Danmark staff member approving a model-based valuation could also be making the pertaining control inspection.

Realkredit Danmark is ordered to ensure adequate segregation of duties in its valuation organisation.

When reviewing the sample of valuations, the Danish FSA had comments on 12 valuations. In four cases, property valuations were too high, and errors or omissions were observed in the documentation. In another four cases, properties were valued at the maximum amount acceptable, and errors or omissions were observed in the documentation for two of these valuations. Finally, errors or omissions were observed in the documentation for yet another four valuations.

The results of the inspection did not warrant a recalculation of the solvency need calculated by the institution.