

MEMORANDUM

25 August 2016
File No. 6852-0041

Report on inspection at Realkredit Danmark A/S (LTV ratio monitoring)

Introduction

In June 2016, the Danish Financial Supervisory Authority (the FSA) conducted a function-based inspection at Realkredit Danmark.

During the inspection, the FSA reviewed Realkredit Danmark's monitoring of lending ratios, including the institution's method for monitoring loan-to-value (LTV) ratios and calculating supplementary collateral and the business procedures for the area. Moreover, the FSA checked the institution's LTV monitoring by reviewing a random sample of 100 loan cases from various property segments.

Summary and risk assessment

In an inspection in 2012, the FSA determined that Realkredit Danmark's LTV ratio monitoring system had errors that resulted in non-compliance with the minimum requirements regarding the time limit for monitoring the LTV ratios of properties mortgaged as collateral for mortgage covered bonds (SDROs).

Afterwards, the institution corrected the errors, and in an inspection in 2013, the FSA found no violations of the time limits set. In the inspection in 2013, however, the FSA determined that the institution's LTV ratio monitoring system had a number of other errors. Afterwards, the institution corrected these errors.

In the FSA's assessment, Realkredit Danmark's LTV ratio monitoring system has improved significantly since the preceding inspection of the area in 2013.

The lending limit of 60% for commercial property can be raised to 70% if extraordinary collateral is provided for the additional lending. There are also some special requirements for supplementary collateral if the LTV ratio subsequently worsens. Realkredit Danmark did not comply with these requirements and therefore received an order to comply with them.

In addition, the FSA ordered Realkredit Danmark, upon conversion of mortgage credit bonds to mortgage covered bonds, to ensure that the institution's property valuation model was used only for updating the value of a property when it can be demonstrated conclusively that the LTV ratio is in compliance for the loan or mortgage in question.

At 31 March 2016, Realkredit Danmark calculated its solvency need at 10.1% and its total capital requirement [sic] under the transitional rules for institutions with an IRB approval at 18.3%. Its actual solvency at 31 March 2016 was 31.6%.

The inspection did not give rise to any comments from the FSA on Realkredit Danmark's calculation of its solvency need in the areas reviewed.