

## **MEMORANDUM**

11 February 2016  
File No. 6852-0034  
klm

### **Statement on inspection of Realkredit Danmark A/S (owner-occupied home model and arrears)**

#### **Introduction**

In August 2015, the Danish Financial Supervisory Authority (the FSA) conducted a function-based inspection of Realkredit Danmark A/S. In the inspection, the FSA reviewed Realkredit Danmark's use of an owner-occupied home model to assess the value of owner-occupied homes. The FSA also conducted spot checks of arrears and selected policies and business procedures on arrears. Afterwards, the FSA inspected a number of properties.

#### **Summary and risk assessment**

Realkredit Danmark has permission to use an owner-occupied home model to a certain extent to assess the value of owner-occupied homes for the purpose of determining the size of loans. The model is also used for ongoing LTV ratio monitoring and for calculating collateral values for capital adequacy purposes.

The FSA conducted spot checks of 200 randomly chosen valuations of homes in Copenhagen and Århus. Half of the homes were assessed by physical inspection, and the other half were assessed by means of the owner-occupied home model.

It is the FSA's assessment that the valuations made with the owner-occupied home model in the spot checks generally did not deviate materially from the valuations made on the basis of a physical inspection. The FSA issued an order to reduce the valuations of two (of 200) properties reviewed that were assessed by means of the model.

The FSA reviewed selected policies and business procedures on arrears. The FSA also conducted spot checks of the institution's arrears, an equal number of loans to businesses and loans to private individuals. The spot checks covered 30 cases.

Realkredit Danmark's delinquency rate does not deviate materially from those of comparable institutions.

In its review of the selected arrears of business customers, the FSA identified some examples of operational errors in both the manual and the automatic processing of arrears. The FSA has received a statement on the cause of the errors and the measures that the institution has carried out to reduce the risk of similar errors occurring in future.

The FSA also ordered RD to change its rating method so that cases that had previously been in arrears but are no longer in arrears but are still subject to individual impairment charges for a period afterwards should be rated as exhibiting OEI for the entire period.

On 30 June 2015, Realkredit Danmark had a solvency need, including the buffer requirement, of 12.5%, while the highest binding requirement according to the transitional rules was 21.8%. Its actual total capital ratio was 37.5%. The inspection did not give rise to any change in the FSA's assessment of the institution's solvency need.