

MEMORANDUM

16 December 2024
File no. 24-014331
/LIRI

Statement on inspection at Realkredit Danmark A/S

1. Introduction

In June 2024, the Danish Financial Supervisory Authority (the Danish FSA) conducted an inspection at Realkredit Danmark A/S (Realkredit Danmark).

The inspection comprised a review of the LTV area. During the inspection, the Danish FSA reviewed various policies, business procedures and reports as well as a sample of 100 cases.

The Danish FSA focused on whether the properties were valued at the correct frequency and on the basis of the correct valuation method. The valuations of the properties were not verified.

2. Summary and risk assessment

In 2019, a new monitoring frequency was introduced for residential properties provided as collateral for mortgage covered bonds. The implementation deadline was 8 July 2022.

Realkredit Danmark did not implement it in due time, resulting in a risk that adequate supplementary collateral is not provided. Realkredit Danmark identified the lack of implementation in mid-December 2023 and set aside additional supplementary collateral. In the period up to mid-October 2024, Realkredit Danmark implemented the statutory monitoring frequency and completed monitoring of all properties whose valuations were no longer up to date due to the changed monitoring frequency. Against this background, Realkredit Danmark has received a reprimand in respect of this matter¹.

In the period from February to April 2024, Realkredit Danmark's calculations of the need for supplementary collateral were erroneous, which entailed a risk that adequate supplementary collateral was not provided to hedge bondholders' risk.

Realkredit Danmark has been ordered to ensure and demonstrate that the control environment meets the requirements set out in the Danish Executive Order on Management according to which controls must be performed by a unit other than the one carrying out the task in regard to the calculation of the need for supplementary collateral².

The purpose of ongoing monitoring of property loan-to-value ratios – monitoring of LTV ratios – is to ensure that Realkredit Danmark identifies the properties for which there is a risk that the fair value of the individual property has decreased and the lending limit has been exceeded. Monitoring of LTV ratios helps ensure compliance with the requirement of supplementary collateral.

Realkredit Danmark has been ordered to revise its internal guidelines on the determination of haircuts so that they reflect the risk of declining property prices and contribute to the adjustment of the monitoring to ensure that adequate supplementary collateral is provided by the institution³.

¹ See article 129(3) of Regulation (EU) No 575/2013 of The European Parliament and of The Council on prudential requirements for credit institutions and investment firms.

² See section 19(2) of Danish Executive Order no. 1103 of 30 June 2022 on Management and Control of Banks, etc.

³ See section 33d of Danish Consolidating Act no. 315 of 11 March 2022 on Mortgage-Credit Loans and Mortgage-Credit Bonds etc.