

4 July 2019
Ref. ane, klm
File no. 6852-0019

Inspection at Realkredit Danmark A/S

Introduction

During week 47 of 2018 and week 4 of 2019, the Danish Financial Supervisory Authority (the FSA) conducted an inspection at Realkredit Danmark A/S. The inspection comprised a review of policies etc. and loans granted to agricultural customers as well as the institution's property valuation model used for fixing of the lending limit for personal customers.

In the agricultural area, the FSA reviewed the institution's credit policy, the board of directors' instructions for the executive board, business procedures and reporting. Furthermore, the FSA reviewed 46 loans granted to customers with agricultural properties. Finally, the FSA reviewed 125 valuations of agricultural properties, of which 10 were selected for physical inspection.

As regards the property valuation model, the FSA reviewed policies, business procedures, analyses and reporting regarding the use of the owner-occupied home model for fixing of the lending limit. Furthermore, the FSA reviewed 200 valuations of private properties, of which 100 had been valued using the model and 100 had been valued on the basis of a physical inspection. Of these 200 valuations, 34 were selected for physical inspection.

Summary and risk assessment

The FSA examined the institution's statistical model for valuation of real property for fixing of the lending limit (the "property valuation model"). For this purpose, the FSA reviewed the relevant policies, business procedures and management reporting regarding the use of the model.

Realkredit Danmark was ordered to ensure that the reporting on the performance of the valuation model for fixing of the lending limit is of adequate quality and that the Risk Committee, on an ongoing basis and critically, address the reporting on the model.

The FSA also observed that the institution's business procedures allowed an expert valuer who departed from a model value to determine a value that was 10% higher than the model value without the new value being supported by references. Realkredit Danmark was ordered to ensure that the institution's fixing of the lending limit is based on property value assessments that are supported by valid documentation of valuation, including references.

When reviewing the valuations of owner-occupied homes, the FSA found in one case that, by mistake, a property had not been inspected prior to the fixing of the lending limit and in two cases that the use of the property valuation model was not comprised by the institution's dispensation from the inspection requirement.

Realkredit Danmark was ordered to ensure that mortgage loans are granted only on the basis of valuations that meet the rules set out in the Danish Executive Order on Valuation, and that the property valuation model is used only for fixing of the lending limit for the property categories comprised by the institution's dispensation from the inspection requirement. The institution must submit the valuation reports regarding the properties referred to above once they have been inspected.

Finally, the FSA reviewed a spot check of 125 valuations of agricultural properties, of which 10 were selected for inspection. The FSA found that the valuations of four of the selected agricultural properties were too high. In one of these valuations, the land price was too high.

Finally, the FSA reviewed a spot check of 200 valuations of owner-occupied homes, of which 34 were selected for inspection. The FSA found that the valuations of nine of the selected owner-occupied homes were too high. Of these, five homes had been valued using the property valuation model and four on the basis of a physical inspection.

Realkredit Danmark was ordered to bring the valuations in question in line with the values determined by the FSA and to reduce the loans where necessary.