

Translation by Danske Bank of a statement from the Danish Financial Supervisory Authority. In case of discrepancies, the Danish version prevails.

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## **Statement on inspection at Realkredit Danmark A/S (LTV monitoring and arrears)**

### **Introduction**

In June 2013, the Danish Financial Supervisory Authority (the FSA) conducted a function-based inspection at Realkredit Danmark A/S.

During the inspection, the FSA reviewed Realkredit Danmark A/S's monitoring of lending ratios, including the institution's method for monitoring loan-to-value ratios (LTV) and calculating additional collateral. The FSA's review included the business procedures for the area. Moreover, the FSA checked the institution's LTV monitoring by reviewing a random sample of 50 cases from different property segments.

The FSA also inspected Realkredit Danmark A/S's lending with past due payments, including reviews of the institution's method for processing past due payments, its process of enforcement and its business procedures for impairments and losses. Moreover, the FSA reviewed 30 exposures to personal and business customers; 20 that were in arrears and 10 that had formerly been in arrears.

### **Summary and risk assessment**

Formerly, Realkredit Danmark A/S's LTV monitoring system has had errors leading to non-compliance with the minimum requirements regarding the time limit for monitoring the LTV ratios of properties mortgaged as collateral for mortgage covered bonds (SDRO's). At the inspection, the institution informed the FSA that no delays in the LTV monitoring of properties had occurred so far in 2013. As a matter of fact, the FSA did not find any non-compliance with the time limit so far in 2013.

At the inspection, the FSA gave Realkredit Danmark A/S several orders as regards its LTV monitoring system.

Thus, for its LTV monitoring, Realkredit Danmark A/S did, as a result of a system error, for a period of time assess the values of a limited population of mixed properties by a property valuation model, even though the FSA has not approved the use of a property valuation model for monitoring the LTV ratios of commercial property.

Moreover, the FSA ascertained a need for Realkredit Danmark A/S to tighten its procedure for calculating the requirement for additional collateral when minor falls in property prices resulted in non-compliance with the statutory loan limits.

In addition, Realkredit Danmark A/S failed to ensure that the value of a property is updated as soon as a loan is converted from an RO loan (mortgage credit bonds) to an SDRO loan, unless the institution knows, without a doubt, that the required LTV ratio is complied with as regards the loan/mortgage.

Finally, Realkredit Danmark A/S did not focus sufficiently on extraordinary monitoring of residential buy-to-let properties, in particular, when market conditions changed significantly. Hence, Realkredit Danmark A/S has never carried out extraordinary monitoring of buy-to-let properties.

When reviewing the 30 exposures to personal and business customers, including 20 that were in arrears and 10 that had formerly been in arrears, the FSA found a need for Realkredit Danmark A/S to tighten its decision-making authority when accepting debt assumption within a family. At the time of inspection, Realkredit Danmark A/S had already changed its procedures in the area.

At 31 March 2013, Realkredit Danmark A/S had calculated its solvency need at 14.9% and its capital requirement under the transitional rules for institutions with an IRB approval at 19.6%. Its actual solvency at 31 March 2013 was 33.2%.

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