Announcement: Moody’s raises Timely Payment Indicator for German Mortgage Pfandbriefe

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18 Mortgage Pfandbriefe programmes’ TPIs raised

London, 23 November 2011 -- Moody’s Investors Service has today announced that it has raised to “High” from “Probable-High” the base-case Timely Payment Indicator (TPI) for German mortgage Pfandbriefe issued under the German Pfandbrief Act. The raising to “High” is due to the strong legislative and regulatory support that German mortgage Pfandbriefe benefit from. In addition, it aligns the mortgage Pfandbriefe TPIs with public-sector Pfandbriefe TPIs.

The TPIs for 17 mortgage Pfandbriefe were raised to “High” (see list below), Deutsche Pfandbriefbank AG’s mortgage Pfandbriefe TPI was raised to “Probable-High”, whilst SEB AG’s mortgage Pfandbriefe TPI remains “Probable-High”.

In the case of SEB AG, the TPI remains at “Probable-High”. This is due to possible future changes in the pool composition for this programme, after the recent sale of its retail business. The TPI of Deutsche Pfandbriefbank AG’s mortgage Pfandbriefe has been raised to “Probable-High”, it remains one notch below the base-case TPI.

THE TPI IN THE CONTEXT OF THE PFANDBRIEFE ACT

The TPIs for the majority of mortgage Pfandbriefe have been raised due to the strong legislative and regulatory support provided to the Pfandbriefe, as well as the robust liquidity levels that have supported Pfandbriefe over the crisis. The TPI measures the likelihood that timely payments will be made to covered bond investors following the default of the bank supporting the covered bonds.

The strong legislative and regulatory support has been evidenced in a series of recent changes to the Pfandbrief act, which, taken together improve the likelihood that timely payments will be made to covered bond investors following the default of the bank supporting the covered bonds. The changes include (i) the preferential treatment of Pfandbrief investors under the restructuring act; (ii) added powers for the Sachwalter (cover pool administrator) after its appointment; and (iii) the requirement for Pfandbrief issuers to maintain a 180-day liquidity buffer. Expanding on these points in turn:

(i) Section 36a of the restructuring acts states that no measures taken on the issuing bank -- including a bail-in of a bank's senior unsecured investors -- may affect the cover pool, over which the Pfandbrief investors have a preferential claim.

(ii) The Sachwalter's ability to raise finance from the cover pool has improved by granting it wide-ranging powers to create liquidity for the benefit of covered bond holders; for example, by accessing the repo facilities of the central bank system, or by entering into loan agreements.

(iii) Section 4a of the Pfandbrief act requests that issuers safeguard liquidity by maintaining a liquidity buffer in the respective Pfandbrief programme of at least 180 days. This should help prevent liquidity shortfalls for a period, granting the Sachwalter sufficient time to create the necessary liquidity by using the powers mentioned above, amongst others.

Moody’s also notes that mortgage Pfandbriefe have been one of Europe's most liquid financial instruments over the crisis to date. A deep covered bond market improves the chances that timely payments on covered bonds will be made following the default of the bank supporting the covered bond. The reason for this is that if covered bonds can readily be sold into a market in times of stress, then the probability improves that the Sachwalter (i) can either find a bank willing to take over the covered bond programme; or (ii) raise finance against the cover pool.

RATINGs PROCESS

Moody’s rating for any covered bond is determined after applying a two-step process:

(1) Moody’s determines a rating based on the expected loss on the bond. This is modelled as a function of the issuer’s probability of default and the stressed losses on the cover pool assets following issuer default; and

(2) Moody’s assigns a TPI, which indicates the likelihood that timely payment will be made to covered bondholders following issuer default. The effect of the TPI is to limit the covered bond rating to a certain number of notches above the issuer’s rating.

AFFECTED PROGRAMMES

Having analysed each mortgage Pfandbrief programme on its own merits, Moody’s has raised the following TPIs to High:

Bayerische Landesbank mortgage Pfandbriefe
Berlin-Hannoversche Hypothekenbank AG mortgage Pfandbriefe
Deutsche Bank AG mortgage Pfandbriefe
Deutsche Hypothekenbank AG mortgage Pfandbriefe
Deutsche Kreditbank AG mortgage Pfandbriefe
Deutsche Postbank AG mortgage Pfandbriefe
Eurohypo AG mortgage Pfandbriefe
Hamburger Sparkasse AG mortgage Pfandbriefe
HSH Nordbank AG mortgage Pfandbriefe
ING-DiBa AG mortgage Pfandbriefe
Kreissparkasse Koeln mortgage Pfandbriefe
Landesbank Baden-Wuerttemberg mortgage Pfandbriefe
Landesbank Berlin AG mortgage Pfandbriefe
Muenchener Hypothekenbank eG mortgage Pfandbriefe
Norddeutsche Landesbank GZ non-grandfathered mortgage Pfandbriefe
Sparkasse KoelnBonn mortgage Pfandbriefe
Unicredit Bank AG mortgage Pfandbriefe

The following TPI has been raised to "Probable-High":
Deutsche Pfandbriefbank AG mortgage Pfandbriefe

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