Panel 3: LTV for cover purposes
9:00-10:30

- Absolute vs Relative LTV
- CRR; Opinion of EBA on the preferential capital treatment of covered bonds
- Best practice (based on EBA opinion)
- Market value vs Mortgage lending value
- Indexation of valuation
- Potential impact of LTV methodology to the rating

Moderator:

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Panelists:

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LTV criteria in different jurisdictions

LTV criteria	Number of European jurisdictions
"Hard" LTV limit	18
"Soft" LTV limit only	15
Additional LTV limit on a portfiolio basis	4

LTV applies at issuance or lifetime	Number of European jurisdictions
Lifetime	21
Issuance	4

Valuation of the Mortgage Cover Assets and LTV criteria

Recommendation ESRB 4 - A: LTV limits

The legal/regulatory covered bond framework should encompass:

i. maximum LTV parameters to determine the percentage portion of the loan that contributes to the requirement of coverage of the liabilities of the covered bond programme (so called 'soft LTV limits').

ii. LTV eligibility limits (i.e. limits whose breach determines the full non-eligibility of the loan for inclusion in the cover pool or 'hard LTV limits') may be applied when a given loan is first included in the cover pool.

Related to (ii): the EBA is concerned about the on-going application of eligibility LTV limits to loans already included in the cover pool. A severe downturn of real-estate prices, in the presence of 'hard LTV limits', may determine coverage disruptions in covered bond programmes.

Complementing CRR Art. 129

Recommendation EU COM 1 - A: Legal/regulatory minimum over-collateralisation

A **legal/regulatory minimum over-collateralisation** should be considered as a qualifying criterion for preferential treatment.

Recommendation EU COM 1 - B: Liquid assets buffer

A requirement to mitigate liquidity risk in the covered bond programme, by means of liquid assets available at all times to cover the total net out-flows of the covered bond programme over a certain time horizon, should be considered as a qualifying criterion for preferential treatment.

Recommendation EU COM 1 - C: Role of the national authority

Provisions over the role of the national authority covering: i) supervision prior to issuance, ii) on going supervision, iii) supervision post default/resolution of the issuer should be considered as qualifying criteria for preferential treatment.

Recommendation EU COM 1 - D: Disclosure to investors

The scope and detail of current disclosure requirements in Art. 129 should be clarified by means of EBA binding technical standards

Segregation of Cover Assets and Bankruptcy remoteness

Recommendation ESRB 2 - A: Segregation of Cover Assets

Effective segregation to be ensured by:

a) registration of the cover assets into a cover register; and / or

b) transfer of the cover assets to a special entity (SPV or specialised entity).

(a) and/or (b) should result in legally binding and enforceable arrangements, including in the event of default or resolution of the issuer.

Segregation arrangement should include:

i. all primary assets collateralising the covered bonds;

ii. substitution assets;

iii. derivatives entered into for the purposes of hedging the risks arising in the covered bond programme.

Features of the cover pool

Recommendation ESRB 3 - B: Geographical location of cover assets

The legal/regulatory covered bond framework should provide that cover pools should be limited to comprise of assets located in the EEA.

Assets located outside the EEA should be considered for inclusion in cover pools provided that the non-EEA jurisdiction under consideration is assessed to apply prudential supervisory and regulatory requirements at least equivalent to those applied in the Union, as per article 107(4) of the CRR.

Assets and Liabilities risks

Recommendation ESRB 6-C: Stress-Testing

Issuers to carry out stress-test exercises on the calculation of the coverage requirement taking into account, at least, the following factors:

i. Shifts of relevant interest rate curves based on historical performance, where data on such performance is available;

ii. Shifts of the currency pairs relevant to the covered bond programme based on historical performance, where data on such performance is available;

iii. Stresses on the credit quality of the underlying assets based on historical performance, where data on such performance is available;

iv. Stresses on the re-payment behaviour of the underlying assets based on historical performance, where data on such performance is available;

v. Stresses on the liquidation price of the underlying assets based on historical performance, where data on such performance is available;

The stress-test should also take into account other risks, including but not limited to, set-off risks and commingling risks.

Valuation of the Mortgage Cover Assets and LTV criteria

Recommendation ESRB 4 - B: LTV measurement and frequency of re-valuation

The legal/regulatory covered bond framework should establish:

i. the value of the property securing each loan, and the corresponding regulatory LTV limit be **updated or re-valued (e.g. at least via an indexation) and monitored at least on a yearly basis** for both **residential and commercial** properties.

ii. the re-valuation of the properties securing the loans should be based on **transparent valuation rules** and be carried out by an **agent who is independent** from the credit granting process.

Valuation criteria in different jurisdictions

LTV valuation criteria	Number of European jurisdictions
Market Value (MV)	**15**
Mortgage Lending Value (MLV)	**8**
MLV and updated MV	**3**
Prudent Market Value (PMV)	**2**
Mortgage Appraisal Value (MAV)	**1**
MV and MLV	**1**
MV and Foreclosure	**1**
Adjusted MV	**1**

Coverage principles and over-collateralisation

Recommendation ESRB 5: Coverage Principles and over-collateralisation

The coverage requirement should **include all the liabilities of the covered bond programme**, including liabilities towards counterparties in derivative contracts and, as applicable, liabilities towards managers/administrators, servicers, trustees, cover pool monitors and similar entities involved in the process of the covered bond issuance.

The EBA considers that a **legal/regulatory minimum over-collateralisation** constitutes a regulatory best practice