



Bank Polski

Cover pool eligibility & valuation criteria in Poland

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Polish covered bond market in turnaround

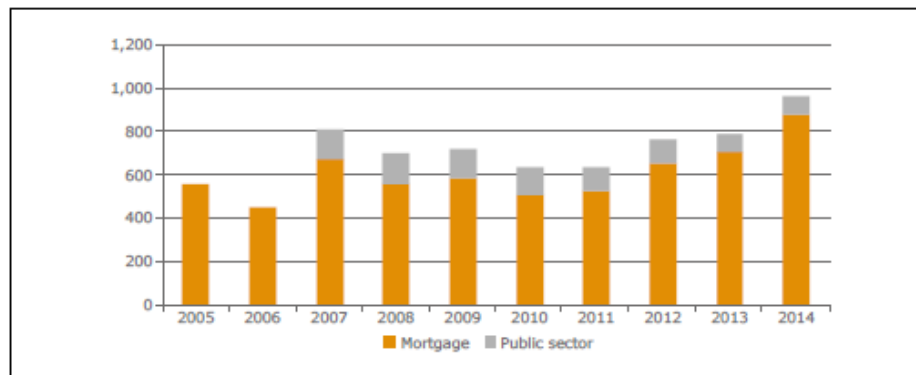
Reactivation of the Polish CB market in 1997
(Act on Covered Bonds & Mortgage Banks)

- As per Dec 2014 current CB outstanding ca. 910 M EUR (2 issuers, predominantly commercial lending), thereof 277 M EUR originated in 2014
- 3 market players:
 - ✓ mBank Hipoteczny
 - ✓ Pekao Bank Hipoteczny
 - ✓ PKO Bank Hipoteczny (from 4.2015)
- High potential for new issuances - up to 15 bn EUR in the next years (esp. residential mortgage financing)

New Mortgage Lending Value (MLV) rules enacted 1.1.2015 (FSA recommendation)

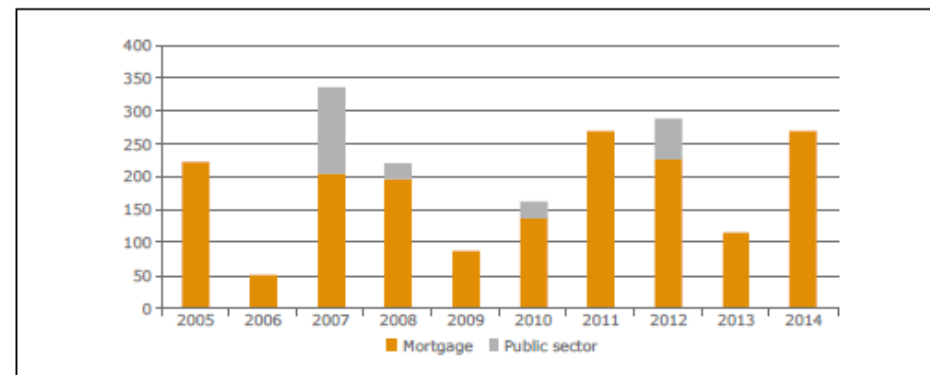
New Act on CB&MB and associated legal framework to come to force from 1.1.2016

> FIGURE 1: COVERED BONDS OUTSTANDING, 2005-2014, EUR M



Source: EMF-ECBC

> FIGURE 2: COVERED BONDS ISSUANCE, 2005-2014, EUR M



Source: EMF-ECBC



Eligibility criteria for cover pool assets (MTG covered bonds)

- ❑ Only performing loans secured by mortgages on residential and commercial properties are eligible
 - ✓ Mortgage legally valid and enforceable
 - ✓ Only first-rank mortgages allowed
 - ✓ Properties located in Poland only
- ❑ Loan amount \leq 100% MLV at origination, both residential & commercial RE
- ❑ Loans secured by mortgages established on properties under construction process may not exceed 10% of the cover pool; thereof max 10% can be receivables secured by construction plots
- ❑ Loans secured by properties which cannot be operated in a permanent, stable manner (e.g. mines) are ineligible
- ❑ Substitution assets can be included in the cover pool (cash or Bank's funds invested in securities issued or guaranteed by public sector)

from 2016 on:

10% over-collateralization required

Valuation rules for cover pool assets (MTG covered bonds)

- ❑ MLV determined always based on an expert opinion
 - ✓ Prudent value assessment based on long-term, sustainable features of a property
 - ✓ Independency of the valuation expert
- ❑ 3 types of analyses possible (cost, income, market-driven), depending on RE type
- ❑ Special treatment for standard residential real estate:
 - ✓ Only one type of value analysis may be applied
 - ✓ Simplified opinion allowable
 - ✓ Inspection can be omitted, if certain conditions are met

from 2016 on:

10% over-collateralization required

MLV may never be set higher than MV

MLV calculation – basic approaches

MLV shall reflect all risks associated with a property

Approaches to determine MLV

MARKET VALUE APPROACH

Analysis of long term, sustainable market value

- ✓ sufficient long term demand at the set MLV level to be examined

Residential real estate

COST APPROACH

Analysis of long term total building costs & cost of construction plot

- ✓ resp. amortization factor to be applied
- ✓ project, administrative & financing costs ratio
- ✓ additional haircut to be applied

set by
Mgt
Board
of MTG
Bank*

INCOME APPROACH

Analysis of long term, sustainable income generated by a property:

- ✓ min. administration & maintenance costs for commercial & residential RE
- ✓ min. vacancy factor
- ✓ min. capitalization rate; residential rate < commercial rate

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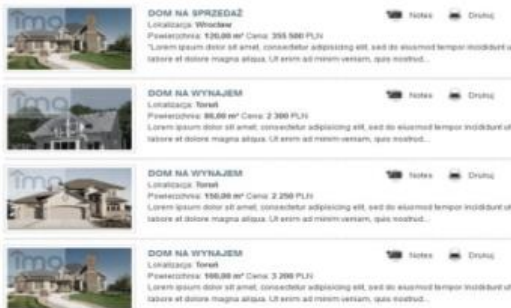
Commercial real estate

* FSA may set the parameters as well

Market value as a basis to determine mortgage lending value

Sources used to determine market value and subsequently mortgage lending value of a property:

Level of average transaction prices of comparable properties



Market value determined by a **property appraiser**



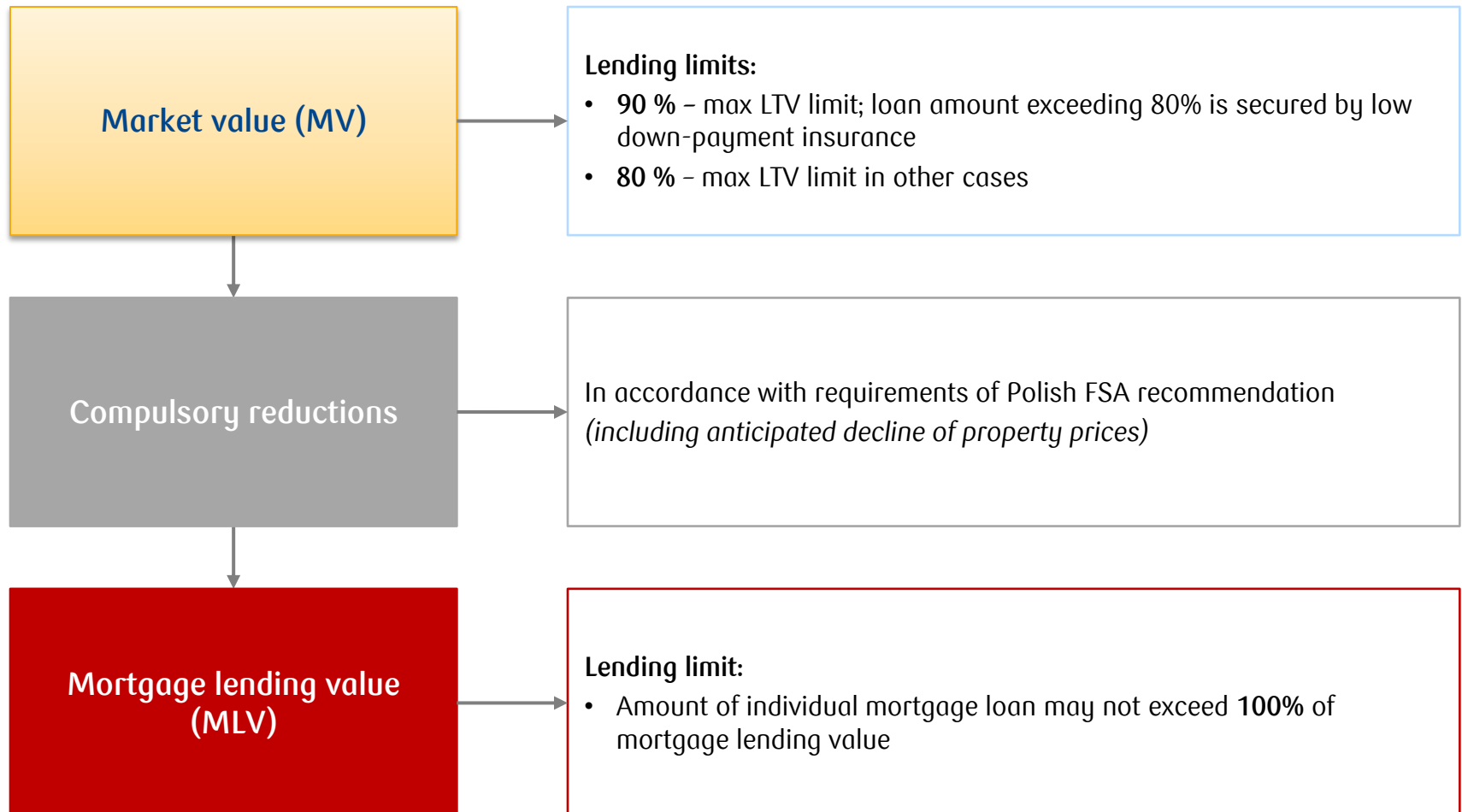
Purchase price specified in a **notary deed**



- purchase price may not be the only source of value -

The lowest value out of the three sources to be applied for further MLV calculation

Market value (MV) vs. mortgage lending value (MLV)



Mortgage lending value of the property – compulsory reductions of MV



| No. | Reasons for reduction | Minimum level |
|-----|--|---|
| 1 | Macroeconomic factors (esp. anticipated decline of property prices) | 5% |
| 2 | Withdrawal from the inspection of property interior by appraiser – for pooling purposes | 10% – in case of arrears in the history of repayment 5% – in case of lack of arrears in the history of repayment |
| 3 | Withdrawal from the inspection of property interior by appraiser – for the purposes of a simplified expert opinion | 10% – in case of arrears in the history of repayment 5% – in case of lack of arrears in the history of repayment |
| 4 | Analysis of MLV based only on one MV source – level of avg transaction prices of comparable properties | 10% |
| 5 | Analysis of MLV based on MV appraisal not commissioned by a mtg bank | 10% |
| 6 | Analysis of MLV based on appraisal older than 1 year (max 2 yrs) | 5% |
| 7 | Analysis of MLV based on price from a notarial deed older than 1 year (max 2 yrs) | 5% |

LtV caps & other criteria (MTG covered bonds)

Cover Pool

- Funding limits:
 - ✓ Residential RE: 80% MLV
 - ✓ Commercial RE: 60% MLV
- Overcollateralization:
 - ✓ Cover pool shall represent min. 110% of CB portfolio, thereof min. 85% in the form of MTG loans
- Daily cover pool monitoring
- Cover pool tests to be performed on a regular basis
 - ✓ Coverage test every 6 months
 - ✓ Liquidity test every 3 months
- MTG bank's income from interest may not be lower than interest payable to CB holders

To be implemented from 1.1.2016

General

1. Total amount of receivables from MTG loans exceeding 60% MLV may not be greater than 30% of the total amount of Bank's receivables secured by mortgages

Cover pool monitor (MTG covered bonds)

- ❑ Appointed by FSA on request of SB of MTG bank
- ❑ Independent from MTG bank, however on MTG bank's payroll 😊
- ❑ Tasks
 - ✓ Monitoring of the cover pool:
 - Ongoing control if the asset eligibility criteria are met
 - Verification of the correctness of the value to be registered in the cover pool
 - Confirming accuracy of the inclusion or removal of the cover assets in the cover pool
 - ✓ Control over issuer's compliance with the provisions of the Act on CB & MTG Banks (esp. overcollateralization level, interest receivable/ payable equilibrium, interest payments buffer, coverage & liquidity test results) and reporting any breaches to FSA
 - ✓ Regular reporting on cover pool to FSA (monthly basis)
- ❑ Issuer obliged to provide full cooperation to the cover pool monitor and shall give the cover pool monitor the right to review the register, loan documentation, accounting books and other bank's documents if needed
- ❑ In case of dissent between Cover Pool Monitor and the MTG bank, FSA decides

Monitoring of real estate values

- Monitoring of the RE values registered in the cover pool is related to market prices.
- Adequate market analyses prepared on a regular basis for managerial purposes.

Residential RE

- Current MV assessment based on information from real estate databases (internal & external)
- Application of RE price indices and econometric models
- Regular update of estimated values

Real estate price indices

- Apartments
- Residential houses
- Plots of land

Commercial RE

- Current MV assessment based on yearly monitoring and individual appraisals (3 year intervals)
- Regular update of estimated values