



# Central European Covered Bond Conference

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## Covered Bond Legislations

A valuation model

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## First steps of the development



## The valuation model

- Analysis of the legislation frameworks for covered bonds
- A two step process:
  - 1-Rating of the criteria for each country on a scale from 1 to 4
  - 2-Weighting of the 22 criteria on a scale from 1 to 4
- Identification of 22 main criteria
  - dual criteria
  - complex criteria
- Taking into account my chosen weighting for the criterias  
the maximum achivable score is 284
- The goal was to develop a relative value model for covered bond legislations

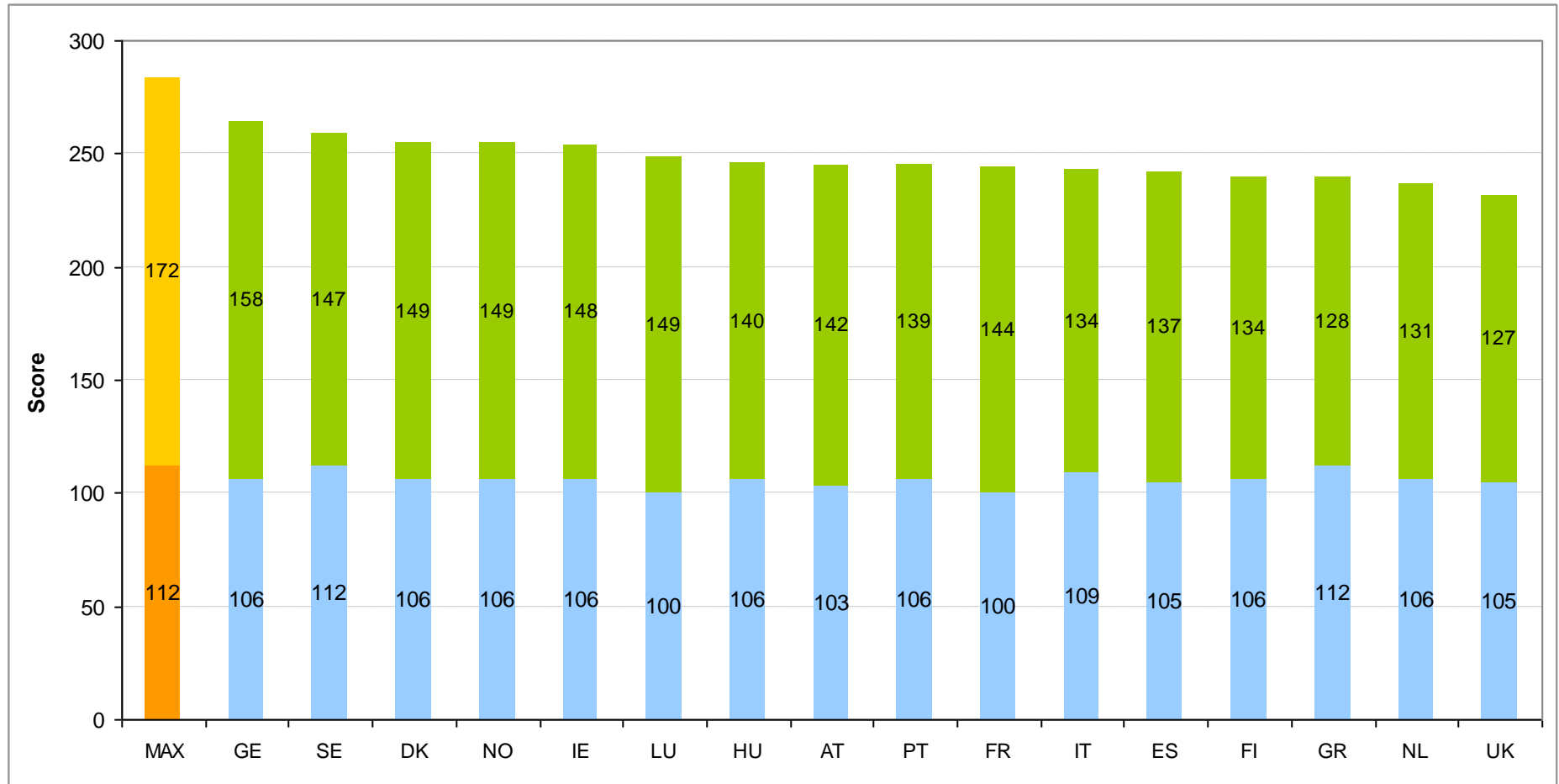
### Dual criteria

- Existence of a special covered bond legislation
- Specialized bank requirements
- Existence of a cover pool register
- Fulfilment of UCITS 22.4
- Fulfilment of CRD requirements
- Eligibility in repo transactions with the national central bank
- Recourse to the credit institution
- Benefit of portion of the loan which exceeds the LTV cap

### Complex criteria

- Types of assets in the cover pool
- Geographical scope
- Calculation method and maximum loan to value
- Handling of derivatives in the cover pool
- Eligibility and maximum value of substitute assets
- Mandatory minimum overcollateralisation
- Owner of the cover assets
- Handling of market risks
- Handling of stress tests
- Handling of liquidity risks
- Handling of covered bonds after an issuer default
- Handling of collateral assets after an issuer default
- Investors rights after an issuer default
- Handling of derivatives after an issuer default

## Overall results (draft)



Source: NORD/LB Economics & Strategy

## Single results in detail (draft)

Criteria	AT	DK	ES	FI	FR	GE	GR	HU	IE	IT	LU	NL	NO	PT	SE	UK
Existence of a special covered bond legislation	4	4	3	4	4	4	4	4	4	4	4	4	4	4	4	4
Specialized bank requirements	3	3	4	2	2	4	4	2	2	4	2	4	2	4	4	4
Existence of a cover pool register	4	3	3	4	2	4	4	4	4	3	4	2	4	4	4	3
Fulfilment of UCITS 22.4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Fulfilment of CRD requirements	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	3
Eligibility in repo transactions	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Recourse to the credit institution	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Benefit of portion of the loan which exceeds the LTV cap	2	4	4	4	4	2	4	4	4	4	2	4	4	2	4	4
Types of assets in the cover pool	4	3	3	3	2	4	3	4	2	2	3	4	3	3	3	3
Geographical scope	3	2	3	3	2	2	2	3	2	3	2	1	2	3	2	1
Calculation method and maximum loan to value	4	3	2	4	2	4	2	3	3	2	4	2	3	2	3	2
Handling of derivatives in the cover pool	4	4	4	3	4	4	4	4	4	4	4	4	4	4	4	4
Eligibility and maximum value of substitute assets	3	3	4	2	2	3	2	2	3	3	2	4	4	2	2	3
Mandatory minimum overcollateralisation	1	3	4	1	2	2	3	1	2	1	2	3	1	3	1	1
Owner of the cover assets	4	4	3	4	4	4	3	4	4	4	4	2	4	3	4	2
Handling of market risks	2	4	2	4	4	4	4	4	4	4	4	4	4	4	4	4
Handling of stress tests	1	2	1	1	4	4	2	2	3	1	3	1	2	3	4	1
Handling of liquidity risks	4	4	4	4	4	4	4	2	4	2	4	4	4	2	4	4
Handling of covered bonds after an issuer default	4	4	4	4	4	4	4	4	4	4	4	2	4	4	4	4
Handling of collateral assets after an issuer default	4	4	4	4	4	4	3	4	4	4	4	3	4	4	4	3
Investors rights after an issuer default	4	4	3	4	4	4	4	4	4	4	4	4	4	4	4	4
Handling of derivatives after an issuer default	4	4	4	2	4	4	2	4	4	4	4	4	4	4	4	4
<b>Sum</b>	<b>79</b>	<b>82</b>	<b>79</b>	<b>77</b>	<b>78</b>	<b>85</b>	<b>78</b>	<b>79</b>	<b>81</b>	<b>77</b>	<b>80</b>	<b>76</b>	<b>81</b>	<b>79</b>	<b>83</b>	<b>74</b>

Source: NORD/LB Economics & Strategy

## Overall results in detail (draft)

Criteria	Weighting (1-4)	Score (max)	MAX	AT	DK	ES	FI	FR	GE	GR	HU	IE	IT	LU	NL	NO	PT	SE	UK
Existence of a special covered bond legislation	4	4	16	16	16	12	16	16	16	16	16	16	16	16	16	16	16	16	16
Specialized bank requirements	3	4	12	9	9	12	6	6	12	12	6	6	12	6	12	6	12	12	12
Existence of a cover pool register	3	4	12	12	9	9	12	6	12	12	12	12	9	12	6	12	12	12	9
Fulfilment of UCITS 22.4	4	4	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16
Fulfilment of CRD requirements	4	4	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16	12
Eligibility in repo transactions	3	4	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12
Recourse to the credit institution	4	4	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16
Benefit of portion of the loan which exceeds the LTV cap	3	4	12	6	12	12	12	12	6	12	12	12	12	6	12	12	6	12	12
Types of assets in the cover pool	2	4	8	8	6	6	6	4	8	6	8	4	4	6	8	6	6	6	6
Geographical scope	3	4	12	9	6	9	9	6	6	6	9	6	9	6	3	6	9	6	3
Calculation method and maximum loan to value	3	4	12	12	9	6	12	6	12	6	9	9	6	12	6	9	6	9	6
Handling of derivatives in the cover pool	2	4	8	8	8	8	6	8	8	8	8	8	8	8	8	8	8	8	8
Eligibility and maximum value of substitute assets	4	4	16	12	12	16	8	8	12	8	8	12	12	8	16	16	8	8	12
Mandatory minimum overcollateralisation	2	4	8	2	6	8	2	4	4	6	2	4	2	4	6	2	6	2	2
Owner of the cover assets	3	4	12	12	12	9	12	12	12	9	12	12	12	12	6	12	9	12	6
Handling of market risks	4	4	16	8	16	8	16	16	16	16	16	16	16	16	16	16	16	16	16
Handling of stress tests	3	4	12	3	6	3	3	12	12	6	6	9	3	9	3	6	9	12	3
Handling of liquidity risks	3	4	12	12	12	12	12	12	12	12	6	12	6	12	12	12	6	12	12
Handling of covered bonds after an issuer default	3	4	12	12	12	12	12	12	12	12	12	12	12	12	6	12	12	12	12
Handling of collateral assets after an issuer default	3	4	12	12	12	12	12	12	12	9	12	12	12	12	9	12	12	12	9
Investors rights after an issuer default	4	4	16	16	16	12	16	16	16	16	16	16	16	16	16	16	16	16	16
Handling of derivatives after an issuer default	4	4	16	16	16	16	8	16	16	8	16	16	16	16	16	16	16	16	16
<b>Sum</b>			<b>284</b>	<b>245</b>	<b>255</b>	<b>242</b>	<b>240</b>	<b>244</b>	<b>264</b>	<b>240</b>	<b>246</b>	<b>254</b>	<b>243</b>	<b>249</b>	<b>237</b>	<b>255</b>	<b>245</b>	<b>259</b>	<b>232</b>

Source: NORD/LB Economics & Strategy



### Conclusion

- Covered bond legislations in Europe already contain a high standard
- Without going into the details the valuation model allows a relative value comparison
- The results enables only a relative value comparison of the legislations
  - There are no bad legislations
- Ongoing changes within legislation frameworks will bring future results closer together
- The valuation model contains a lot of „setscrews“
  - The weightings of the criteria are key
- The weighting of the criteria differs between investor groups

**Thank you very much for your attention**



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