



# Pfandbrief

5. European Covered Bond Forum, 4 February 2011, Mainz

vdp

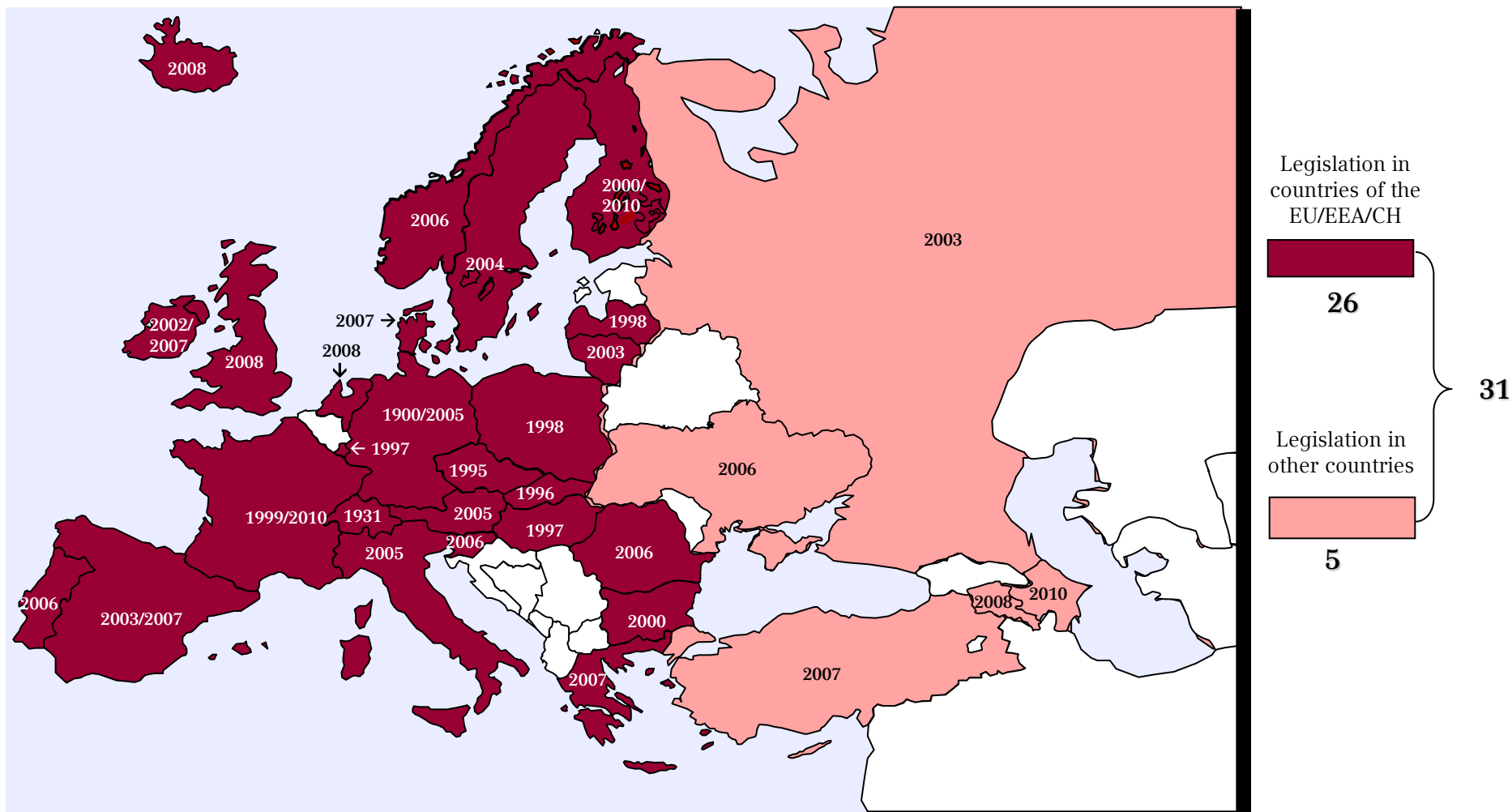
VERBAND DEUTSCHER  
PFANDBRIEFBANKEN

Thinking the unthinkable –  
Covered bonds in issuer's insolvency

Dr. Otmar Stöcker, Managing Director  
Association of German Pfandbrief Banks

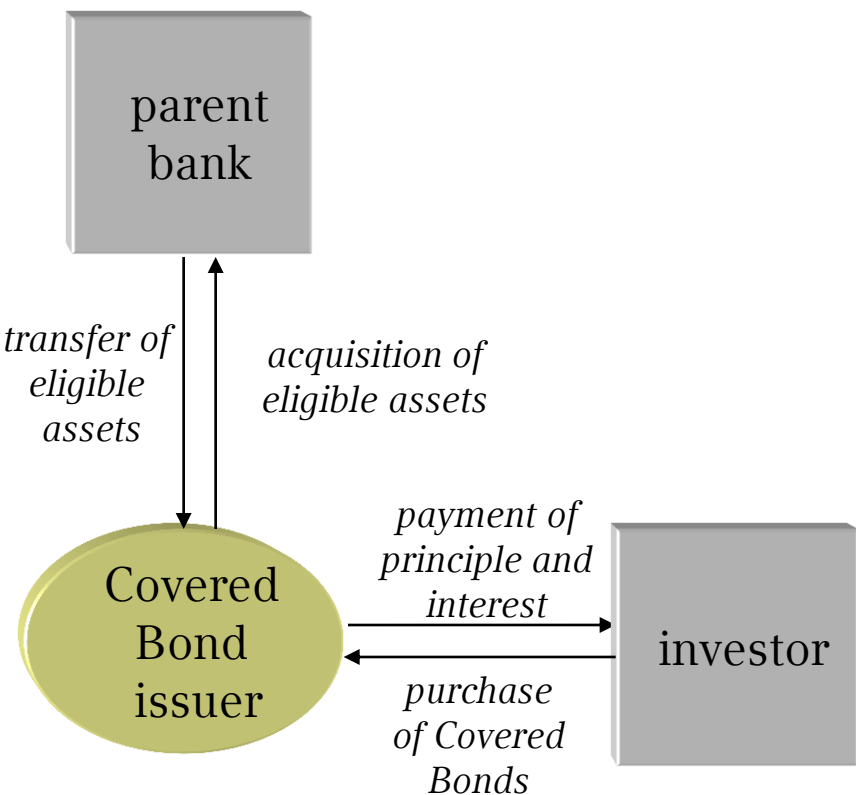


Geographical overview Covered Bond Legislation in Europe (as of May 2010)  
(year of introduction / latest substantial amendment)



**Model 1**

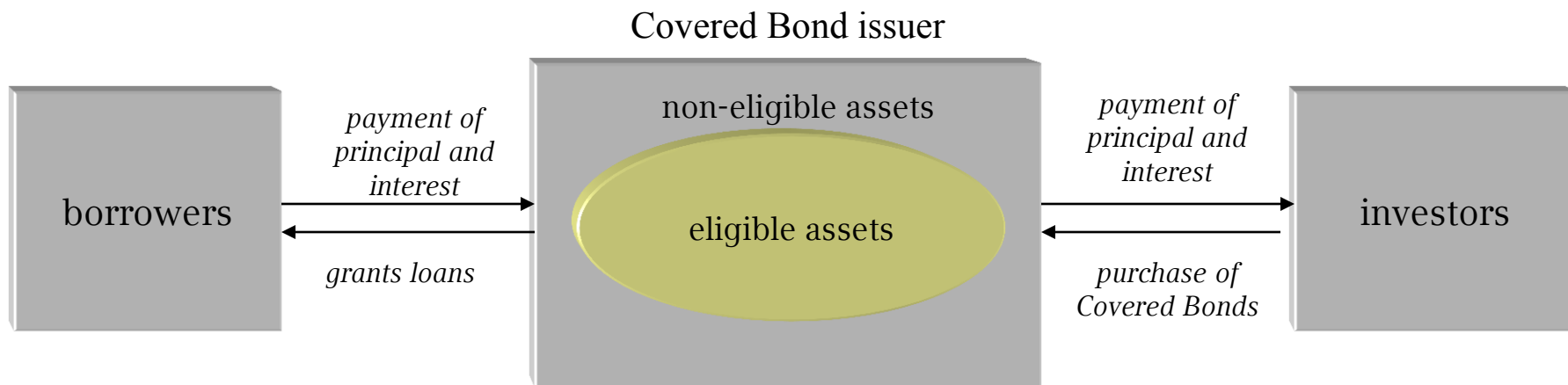
**Covered Bond issuer as completely specialised funding institute:  
France, Ireland, Norway, Switzerland**



- Origination and servicing of eligible assets and management of covered bond issuing institute by parent bank
- Funding institute has no other function than holding eligible assets
- Issuer has bank status
- Issuance governed by special legal framework
- Issuer has no or nearly no staff
- Decisive = insolvency segregation of CB issuer from parent bank
- CB issuer capable of acting despite of parent bank's insolvency?

**Model 2**

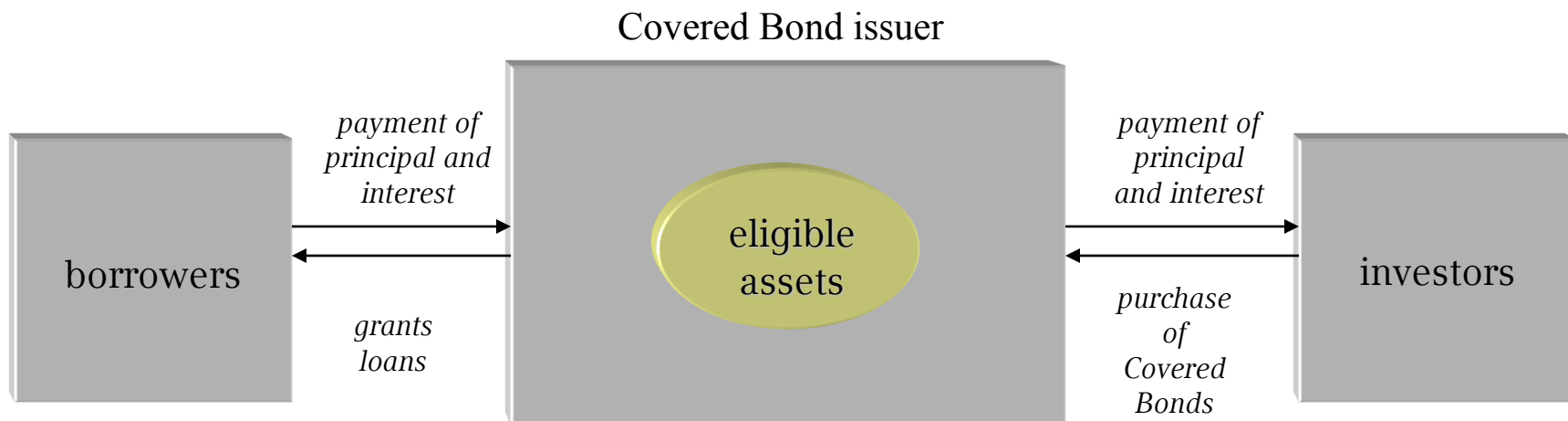
**Covered Bond issuer is specialized bank by law:  
Hungary, Luxemburg, Poland, Denmark**



- Issuer originates, services and funds eligible business
- Loan origination restricted by law to mortgages and public-sector loans
- Issuer has bank status
- Issuance governed by special legal framework
- Decisive = insolvency segregation of cover assets from insolvency estate

**Model 3**

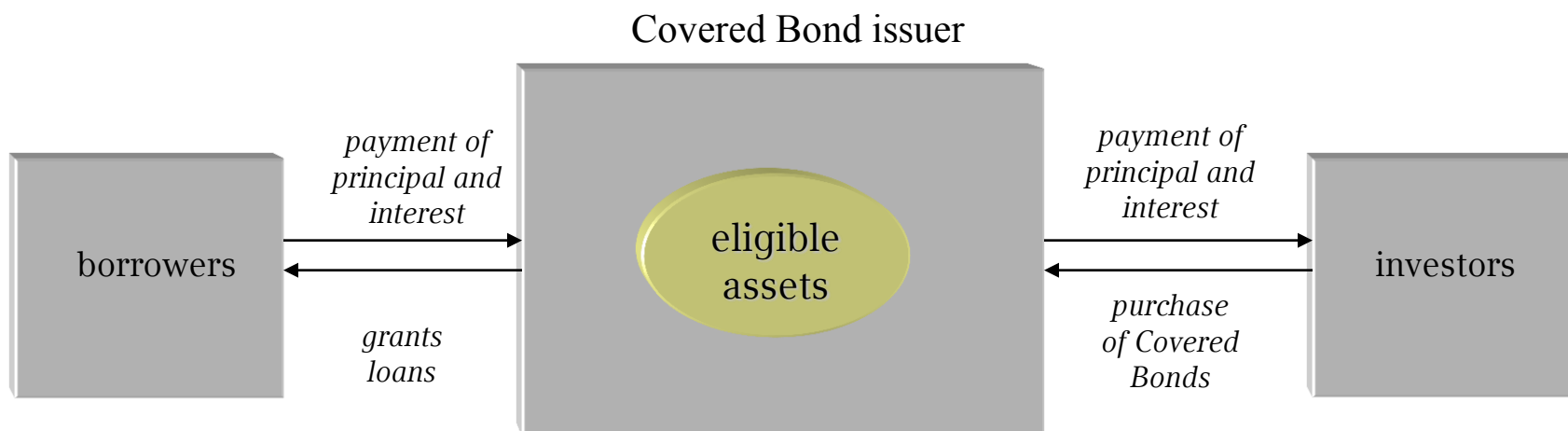
**Covered Bond issuer is universal bank with qualified Covered Bond license:  
Austria, Finland, Germany, Iceland, Latvia, Slovenia, Sweden**



- Issuer originates, services and funds eligible and non-eligible business
- license granted only to banks complying with legal license requirements
- Strict eligibility criteria apply to eligible cover assets
- Issuance governed by special legal framework
- Decisive = insolvency segregation of cover assets from insolvency estate

**Model 4**

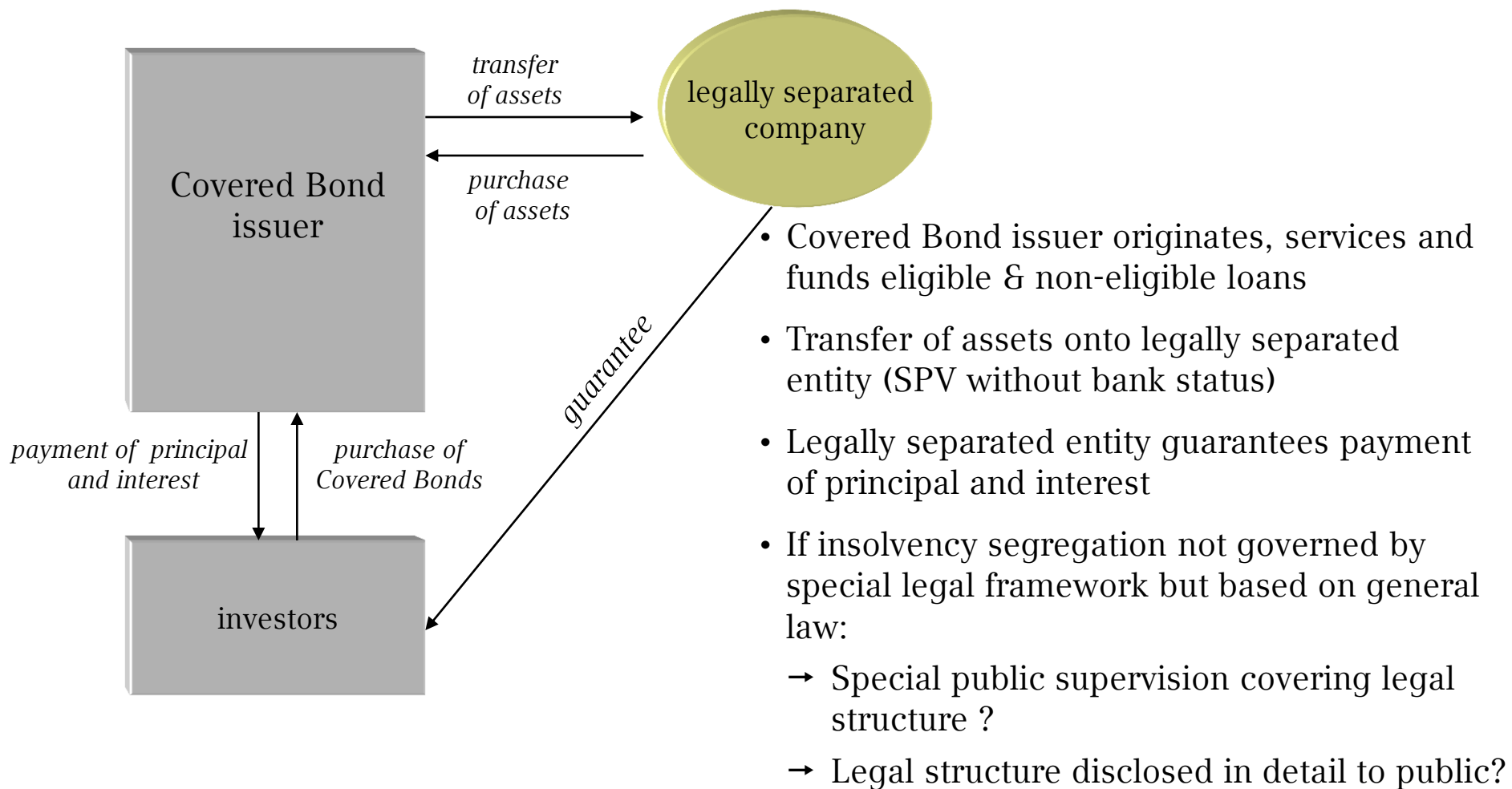
**Covered Bond issuer as universal bank without qualified license:  
Bulgaria, Czech Republic, Greece (?), Lithuania, Portugal, Spain, Slovakia**



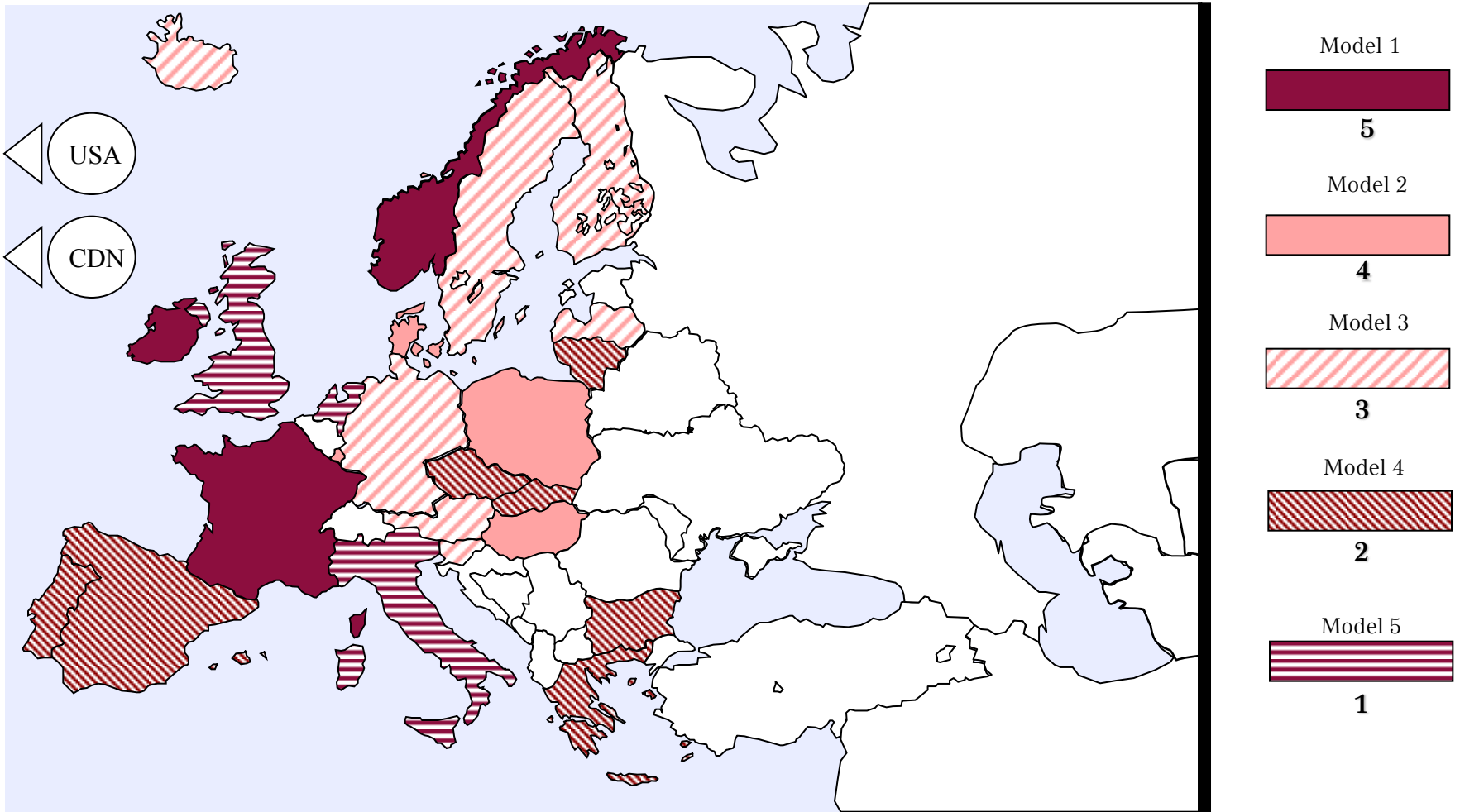
- Issuer originates, services and funds eligible and non-eligible business
- Strict eligibility criteria apply to eligible cover assets
- Issuance governed by special legal framework
- No issuing license required or license granted without any requirements
- Decisive = insolvency segregation of cover assets from insolvency estate

**Model 5**

**Covered Bond issuer using SPV to achieve insolvency segregation of cover assets:  
Italy, Netherlands, UK**



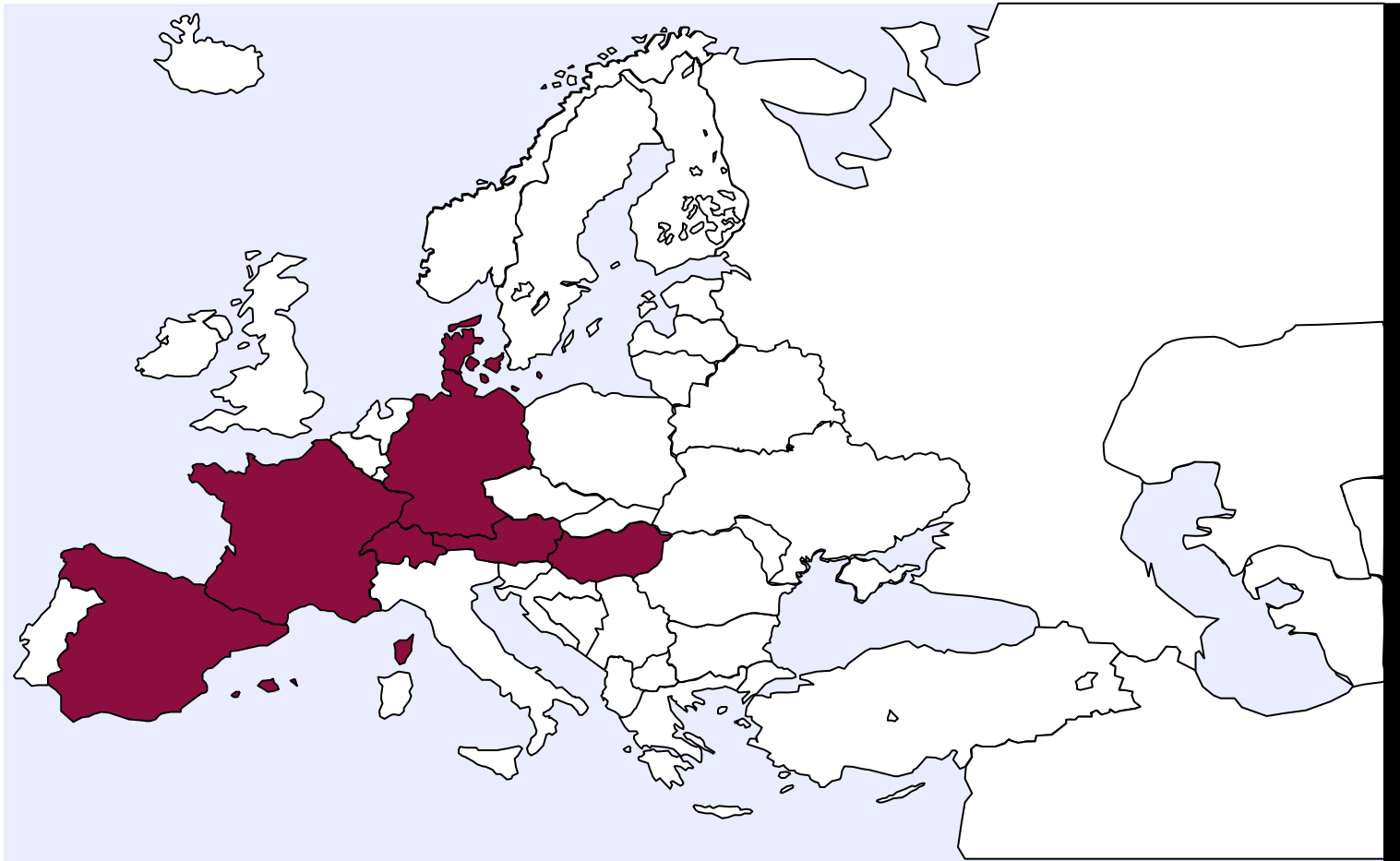
# I. Covered Bond Models in Europe



## Pooling Models in Europe

Polish Mortgage Credit Foundation: II New EU Forum Mortgage Financing & Funding – Single European Mortgage Market, Cracow, 24 / 25 May 2007

Summary published in ECBC, European Covered Bond Fact Book 2008, pp. 40-48



Fundamental question: what does „covered“ mean?

purpose = transformation of cover assets into covered bonds (securitisation)

cover assets

≥

covered bonds



- quality of assets
- management of
  - interest rate risks
  - liquidity risks
  - operational risks

designation of cover assets to  
holders of covered bonds



- **segregation** of cover assets  
from originator's other assets in case  
of insolvency of originator

- **bankruptcy remoteness** of  
cover assets and covered bonds

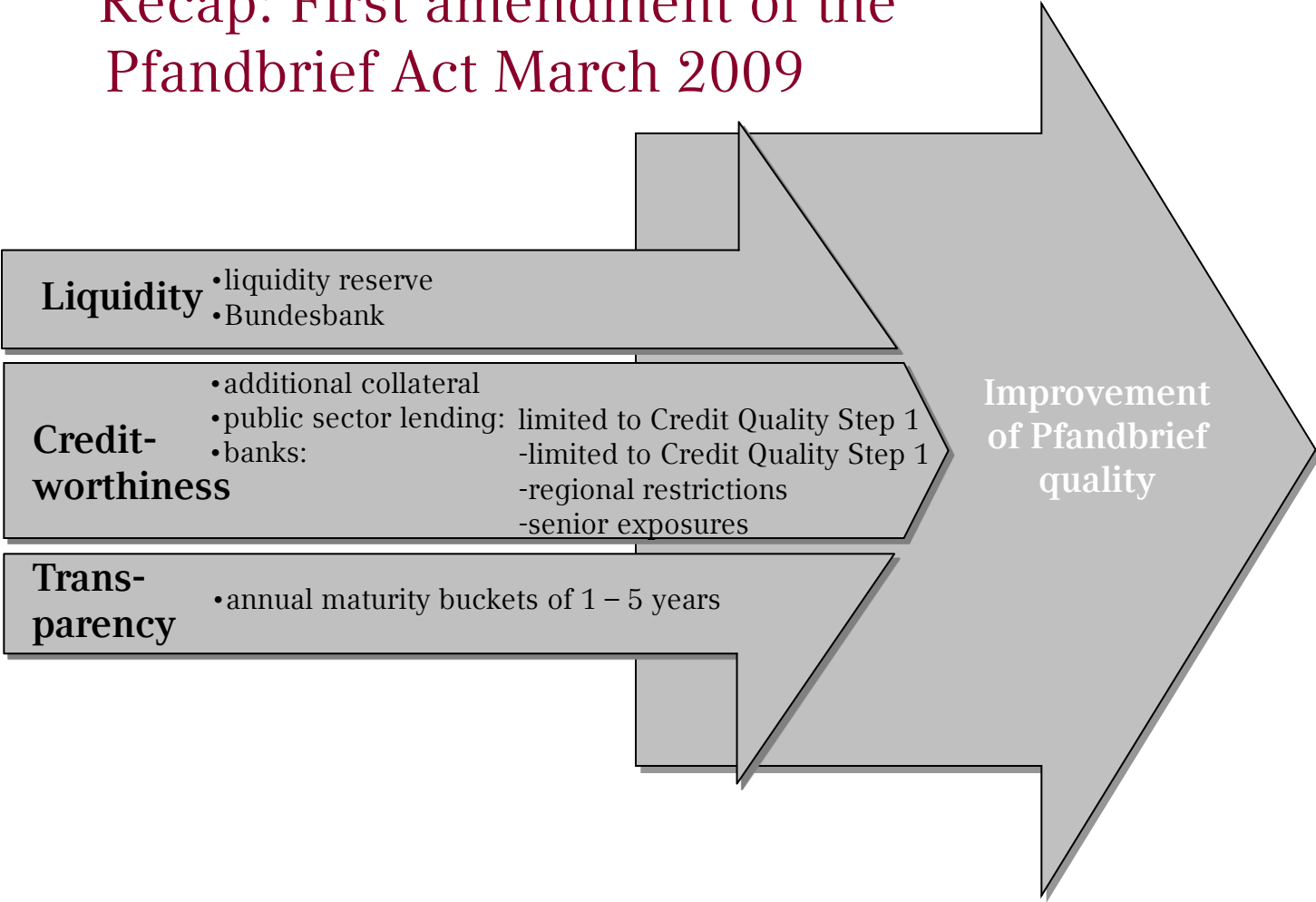


timeliness of payment realistic?

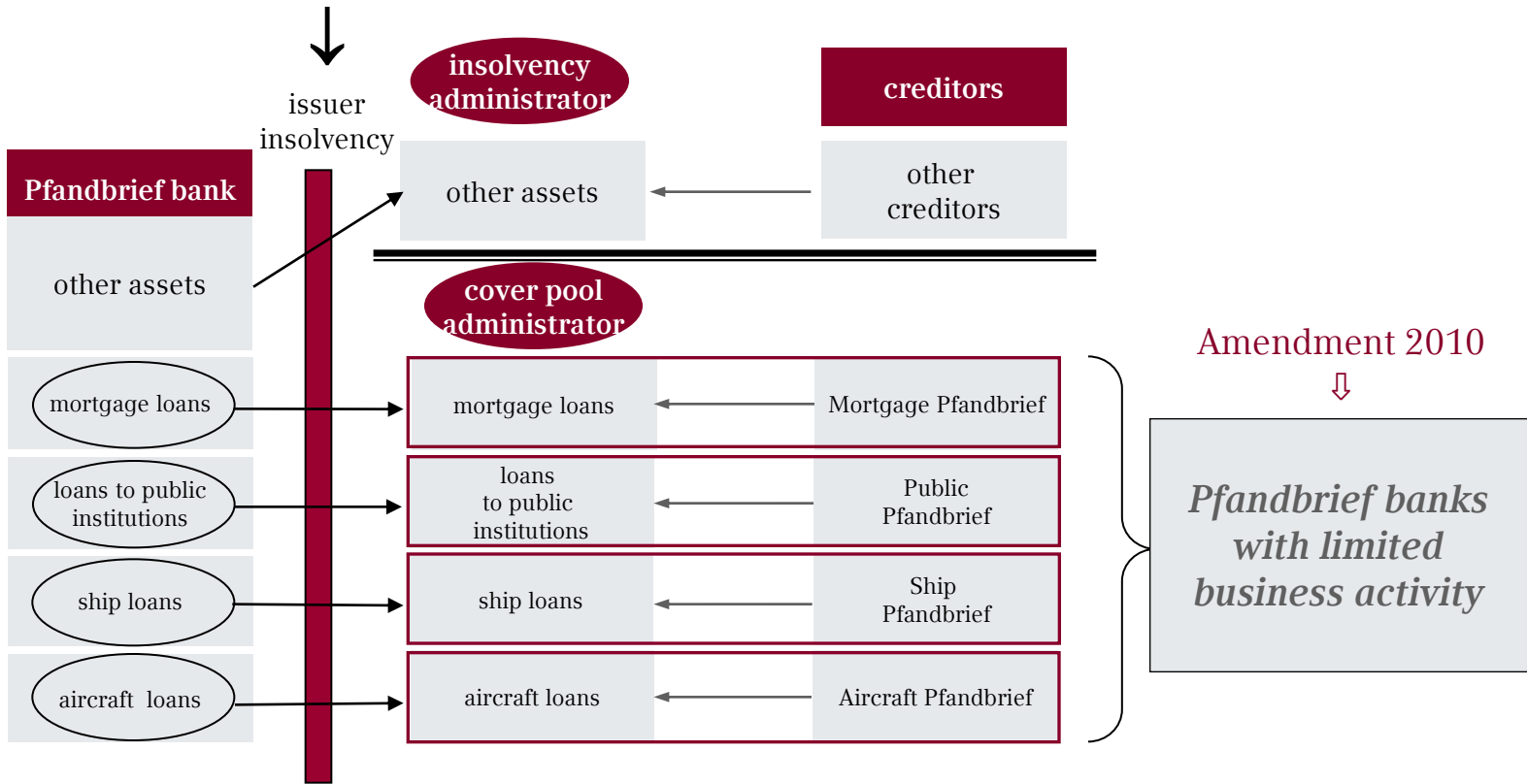


The less covered bond issuers are **legally specialised**, the more and detailed regulations their covered bonds need in order to achieve clear segregation and bankruptcy remoteness and to convince capital markets of it.

# Recap: First amendment of the Pfandbrief Act March 2009



## Segregation principle



- Pfandbrief does not accelerate
- Pfandbrief and cover assets are exempt from the insolvency estate
- Bank license upheld for each Pfandbrief bank with limited business activity
- Cover pool administrator

Amendment 2010 →

## Main themes

- ▶ Strengthening legal competencies of the cover pool administrator
  - Basis for access to central bank liquidity
  - Access to minimum reserve held at central bank
  - Nomination of the cover pool administrator conditional to approval of Pfandbrief bank when helpful for transfer of cover pools and Pfandbriefe to another Pfandbrief bank
  
- ▶ Bank license stays valid for „Pfandbrief bank with limited business activity“
  - Cover pool administrator may issue Pfandbrief that rank pari passu with other issues

## Main themes continued

- ▶ Concretization of the role of the cover pool monitor
  - Function on stay when cover pool administrator is nominated
  - Liability limited up to 1 mn €
    - Insurance permitted, but participation
  - Remuneration owed by issuer, not by BaFin as today, but amount determined by BaFin
  
- ▶ Disclosure requirements further detailed
  - Quarterly data according to Art 28 Pfandbrief Act to be published within a month's time span and two months for fourth quarter respectively

## 2010 amendments in a nutshell

- ▶ Improved comprehensibility of regulations on protection of Pfandbrief holders in case of issuer insolvency
- ▶ Bank license remains in force for „Pfandbrief bank with limited business activity“ by operation of law
- ▶ Pfandbrief issuance permitted for the cover pool administrator in order to bridge potential inherent liquidity mismatches of cover pools

## **Member Institutions of the Association of German Pfandbrief Banks**

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 <b>Aareal Bank</b>	 <b>Bayern LB</b>	 <b>Berlin Hyp</b>	 <b>BREMER LANDESBANK</b>	 <b>COMMERZBANK</b>	 <b>COREALCREDIT</b>	 <b>„DekaBank</b>
 <b>deutsche apotheker- und ärztebank</b>	 <b>Deutsche Genossenschafts-Hypothekenbank</b>	 <b>DEUTSCHE/HYPO</b> Ein Unternehmen der NORD/LB	 <b>DKB Deutsche Kreditbank AG</b>	 <b>pbb</b> DEUTSCHE PFANDBRIEFBANK <small>PUBLIC SECTOR FINANCE REAL ESTATE FINANCE</small>	 <b>Deutsche Schiffsbank</b>	 <b>DEXIA</b> Kommunalbank Deutschland
 <b>Düsseldorfer Hypothekenbank</b>	 <b>DVB</b>	 <b>EURO HYPO</b>	 <b>Haspa</b> Hamburger Sparkasse	 <b>Helaba</b> Landesbank Hessen-Thüringen	 <b>HSH NORDBANK</b>	 <b>HypoVereinsbank</b> UniCredit Group
 <b>IKB</b> Deutsche Industriebank	 <b>Kreissparkasse Köln</b>	 <b>LB BW</b> Landesbank Baden-Württemberg	 <b>LBB LandesBank Berlin</b>	 <b>M.M. WARBURG &amp; CO</b> HYPOTHEKENBANK	 <b>Münchener Hypothekenbank eG</b>	 <b>NORD/LB</b>
 <b>Postbank</b>	 <b>SaarLB</b> <i>die deutsch-französische Mittelstandsbank la banque d'affaires franco-allemande</i>	 <b>SEB</b>	 <b>Sparkasse KölnBonn</b>	 <b>VALOVIS BANK</b> PFANDBRIEFBANK	 <b>WestImmo</b>	 <b>WestLB</b>
 <b>WL BANK</b>	 <b>wüstenrot</b> Partner der Württembergischen					

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