



Pfandbrief

Further refining Pfandbrief framework
legal and rating issues

Jens Tolckmitt
Executive General Manager
Association of German Pfandbrief Banks

Grand Hyatt Ropongi
Tokyo, 27 January 2010



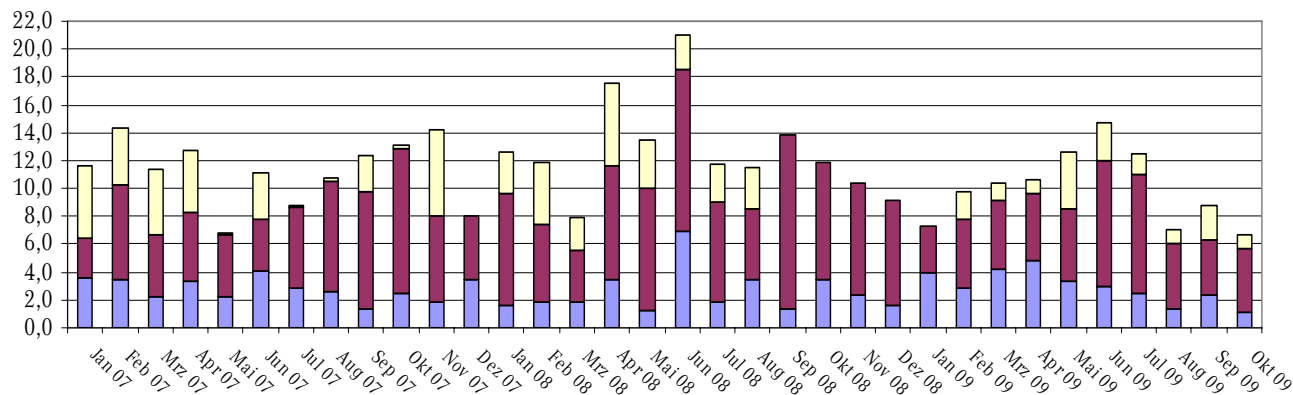
VERBAND DEUTSCHER
PFANDBRIEFBANKEN
Association of German Pfandbrief Banks

Pfandbrief sales Jan 2007 – Oct 2009 (bn Eur/month)



THE PFANDBRIEF –
QUALITY, MADE IN GERMANY

**Pfandbrief
market works -
even in times
of turmoil**



	Jan. 07	Feb. 07	Mrz. 07	Apr. 07	Mai. 07	Jun. 07	Jul. 07	Aug. 07	Sep. 07	Okt. 07	Nov. 07	Dez. 07	Jan. 08	Feb. 08	Mrz. 08	Apr. 08	Mai. 08	Jun. 08	Jul. 08	Aug. 08	Sep. 08	Okt. 08	Nov. 08	Dez. 08	Jan. 09	Feb. 09	Mrz. 09	Apr. 09	Mai. 09	Jun. 09	Jul. 09	Aug. 09	Sep. 09	Okt. 09
□ Jumbo-(bearer-)Pfandbriefe	5,250	4,125	4,625	4,500	0,125	3,405	0,175	0,250	2,700	0,250	6,125	0,000	2,940	4,500	2,325	6,000	3,500	2,425	2,725	3,000	0,000	0,000	0,000	0,000	0,000	2,000	1,250	1,000	4,000	2,650	1,500	1,000	2,500	1,000
■ bearer Pfandbriefe	2,775	6,781	4,447	4,878	4,517	3,683	5,844	7,977	8,388	10,34	6,111	4,574	7,959	5,474	3,690	8,177	8,786	11,585	7,200	5,077	12,431	8,455	8,029	7,501	3,400	4,882	4,941	4,882	5,202	9,042	8,543	4,715	3,997	4,503
■ registered Pfandbrief	3,624	3,447	2,269	3,393	2,178	4,058	2,799	2,535	1316	2,462	1,863	3,500	1,654	1,892	1,874	3,401	1,240	6,961	1,820	3,463	1415	3,414	2,389	1,611	3,931	2,850	4,146	4,794	3,383	3,008	2,443	1,365	2,303	1,148

sources: Deutsche Bundesbank,
HVB, vdp

What's behind this success story?



THE PFANDBRIEF –
QUALITY, MADE IN GERMANY

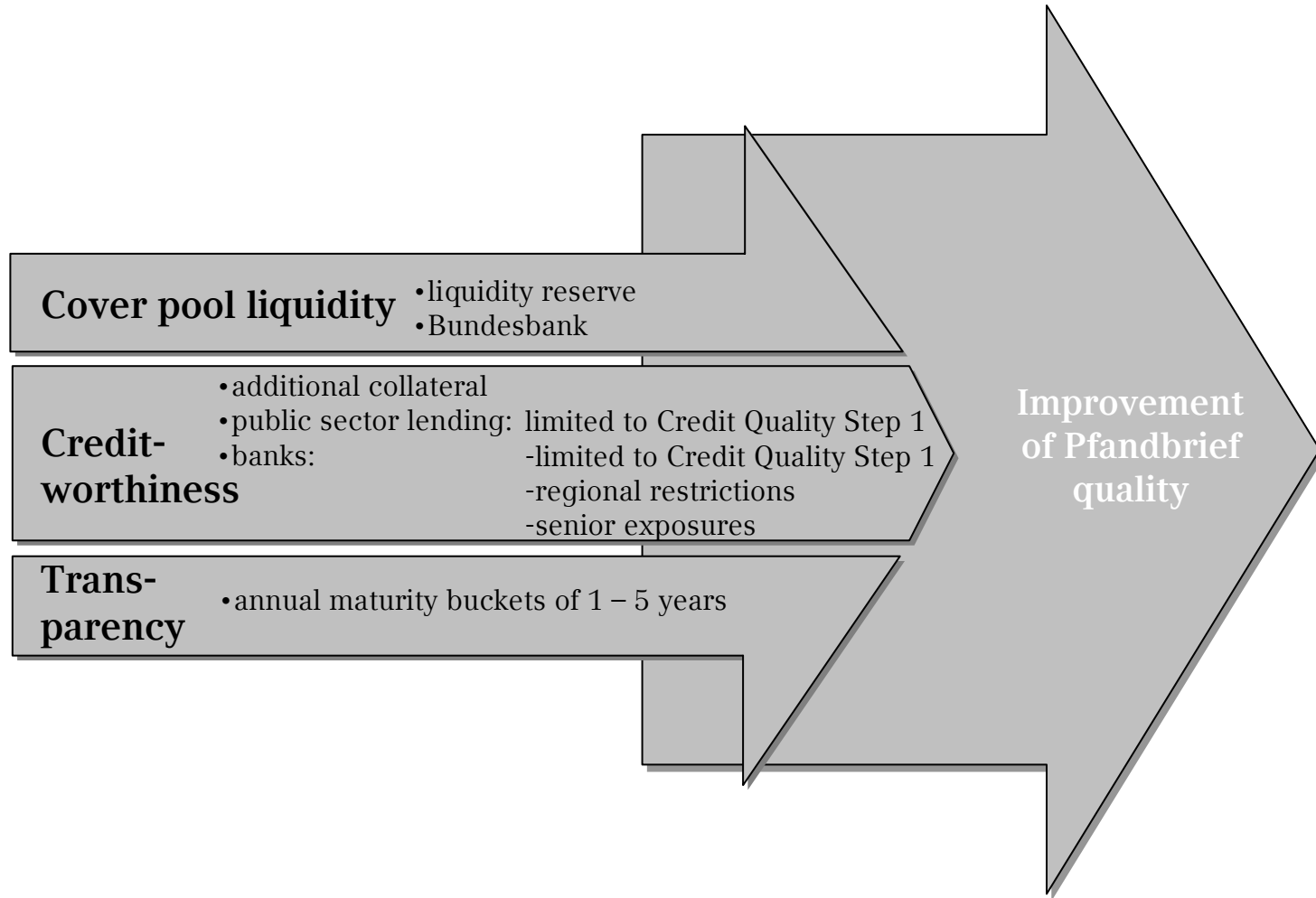
- **Safety:** legal basis
- **Quality:** strictly defined underlyings-mortgages, public sector loans, ship and aircraft mortgages
- **Simplicity:** other than MBS no structuring/subordination; direct look through
- **Transparency:** legal transparency requirements in Art 28 PBA
- **Cover pool liquidity:** legal liquidity requirements in the Act
- **Standardization:** other than structured Covered Bonds or MBS all Pfandbrief issues are based on same dedicated legal framework
- **continued quality control**
 - amendment 2009
 - amendment 2010
 - amendment 20XX

Pfandbrief Act amendment 2009



THE PFANDBRIEF –
QUALITY, MADE IN GERMANY

**amendment
2009 improves
liquidity,
transparency
and credit
quality**



Plans to amend the Act yet again in 2010



THE PFANDBRIEF –
QUALITY, MADE IN GERMANY

- Strengthen character of cover pools as separate estates in case of issuer insolvency
- Cover pools keep partial bank status in case of issuer insolvency
- Strengthen position of cover pool administrator (access to minimum reserve)

=> vdp continuously monitors Pfandbrief quality

Rating agencies approaches to Pfandbrief



THE PFANDBRIEF –
QUALITY, MADE IN GERMANY

latest news

- Fitch:** Last changes of rating methodology dated July 2009
- Changes in components of D-Factor
 - Higher stress demands in cash-flow-analysis
 - Resulted in one rating action
- Moody's:** Higher demands as of spring 2009
- New stress scenarios for funding margins imply significantly higher overcollateralization
 - Following issuer default timely payment of principal may rely on funds being raised against cover pool
 - Repeatedly asks for legal opinions
 - Resulted in three rating actions
- S & P:** New rating methodology effective as of December 2009
- Introduction of link between issuer and Pfandbrief rating
 - Focus on liquidity risk
 - Final rating contingent upon provision of overcollateralization
 - No rating action yet - potential impact on 22 Pfandbrief programmes

Pfandbriefrating – S&P



THE PFANDBRIEF –
QUALITY, MADE IN GERMANY

**new S&P-
methodology -
spotlight on
liquidity risk**

- Issuer credit rating (ICR) as point of departure
- Liquidity risk and assesment of (legal) framework determine maximum notching
- Pfandbrief in category 1: uplift of seven notches maximum
 - Sound legal foundation
 - Mitigating factors
 - Market size, depth and history
- Final notching based on provision of overcollateralization
- Critizism: MBS-Spreads as basis for discounts in case of stressed asset ; (fire sales) is rather harsh assumption

Maximum Potential Ratings Uplift From The Issuer's ICR

By number of notches

ALMM risk	Category		
	1	2	3
Zero	Unrestricted	Unrestricted	Unrestricted
Low	7	6	5
Moderate	6	5	4
High	5	4	3

source: S&P

to dos



THE PFANDBRIEF –
QUALITY, MADE IN GERMANY

- continued monitoring of the Pfandbrief Act: further improvements already envisaged
- further improvement of transparency over time
- re-establishing price transparency and secondary market liquidity
- further strengthen liquidity in cover pools



THE PFANDBRIEF –
QUALITY, MADE IN GERMANY

For further information, please contact:

Association of German Pfandbrief Banks (vdp)
Head Office, Berlin

Jens Tolckmitt
General Manager
phone: +49 30 20915-100
email: tolckmitt@pfandbrief.de

Christian Walburg
Deputy Head Communications
phone: +49 30 20915-340
email: walburg@pfandbrief.de

Georgenstraße 21, 10117 Berlin, Germany
www.pfandbrief.com

Tokyo






























Hideko Takee
International Financial Consulting K.K. (IFC)
phone: +81 3 5532-8057
email: h.takee@pr-liaison.com

The Prudential Tower, 21st floor, 2-13-10 Nagatacho, Chiyoda-ku
Tokyo 100-0014, Japan



**VERBAND DEUTSCHER
PFANDBRIEFBANKEN**
Association of German Pfandbrief Banks

Member Institutions of the Association of German Pfandbrief Banks

 Aareal Bank	 Bayern LB	 Berlin Hyp	COMMERZBANK 	 COREALCREDIT	.DekaBank
 deutsche apotheker- und ärztebank	 Deutsche Genossenschafts-Hypothekenbank	DEUTSCHE/HYPO Ein Unternehmen der NORD/LB	 DKB Deutsche Kreditbank AG	Deutsche Pfandbriefbank	 Deutsche Schiffsbank
 DEXIA Kommunalbank Deutschland	 DHB Düsseldorf Hypothekenbank	 DVE	 EURO HYPO	 Haspa⁺ Hamburger Sparkasse	 Helaba Landesbank Hessen-Thüringen
 HSH NORDBANK	 HypoVereinsbank Unicredit Group	 IKB Deutsche Industriebank	 Kreissparkasse Köln	 LB BW Landesbank Baden-Württemberg	 M.M. WARBURG & CO HYPOTHEKENBANK
 Münchener Hypothekenbank eG	NORD/LB	 Postbank	 Postbank FIRMENKUNDEN	SEB	 Sparkasse KölnBonn
VALOVIS BANK PFANDBRIEFBANK	 WestImmo	 WestLB	 WL BANK	 wüstenrot Partner der Württembergischen	