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## S&P Takes Rating Actions On Section 15 Bonds Issued By Various Danish Mortgage Banks

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### OVERVIEW

- On July 19, 2013, we revised our outlooks on Danish bank Danske Bank A/S to stable from positive, and on Danish mortgage banks Nykredit Realkredit A/S to negative from stable, BRFkredit A/S to negative from stable, and DLR Kredit A/S to stable from positive.
- We generally align our issue ratings on the section 15 bonds issued by these banks with the senior unsecured debt ratings on the issuers.
- Consequently, we have revised our outlooks on the section 15 bonds to reflect the outlooks on the banks.
- The outlooks on the section 15 bonds reflect the outlooks on the senior unsecured debt ratings of the issuers.

LONDON (Standard & Poor's) July 23, 2013--Standard & Poor's Ratings Services today said that it revised its outlooks on its ratings on all Danish section 15 bonds issued from Realkredit Danmark A/S' capital centers S and T; Nykredit Realkredit A/S' capital centers D, E, and H; DLR Kredit A/S' capital center B; and our preliminary rating on the section 15 bonds from BRFkredit A/S' capital center E (see list below).

The issuers of the section 15 bonds are all "Realkreditinstituter" (Danish specialized mortgage credit institutions or MCIs). The issuers are Realkredit Danmark, 100% owned by Danske Bank A/S (A-/Stable/A-2); Nykredit Realkredit (A+/Negative/A-1); DLR Kredit (BBB+/Stable/A-2); and BRFkredit (A-/Negative/A-2).

On July 19, 2013, we revised our outlook on Danske Bank to stable from positive, our outlook on Nykredit Realkredit to negative from stable, our outlook on BRFkredit to negative from stable, and our outlook on DLR Kredit to stable from positive. (See "Various Outlook Actions On Five Danish Banks Due To Funding Reassessment; All Ratings Affirmed," published on RatingsDirect.)

Our issue ratings on the section 15 bonds address the timely payment of interest and the ultimate payment of principal. For section 15 bonds we consider that, if the issuer defaults, interest payments on the bonds would be deferred until the senior covered bondholders can be guaranteed payment in full.

In our opinion, section 15 noteholders are unlikely to receive full payment of principal and interest and may not receive any interest on deferred interest in such an event. Therefore, we generally align our issue ratings on the section 15 bonds with the senior unsecured debt ratings on the issuers. The reasons for this are twofold.

First, the notes' terms and conditions do not clearly define the final maturity of the bonds if the issuer defaults. If the cover pool is insufficient to repay the section 15 bonds, the notes rank *pari passu* with the senior unsecured bondholder's claims on the issuer.

Second, in order for the section 15 bonds to maintain the seniority of their claim to unsecured creditors, additional assets would need to be available in the capital center after the covered bondholders are repaid. We consider that the issuer is unlikely to manage the cover pool to secure payments on the section 15 bonds. This is because, by law, the issuer must act to benefit the covered bonds. In our opinion, the availability of such additional assets strongly corresponds to the strength of the issuer. As a result, our ratings on the section 15 bonds generally reflect any changes in our ratings on the issuer's senior unsecured debt.

Consequently, we have today revised our outlooks on the section 15 bonds to reflect the outlooks on the banks.

We note that section 15 bonds rank junior to the traditional (senior) covered bonds in the capital center that they are issued from, but rank senior to the issuer's senior unsecured debt for funds from the associated capital center. If the issuer defaults, payments on the section 15 bonds are deferred until all respective senior covered bonds have been redeemed, unless the bankruptcy administrator is confident that the senior covered bonds can be repaid.

The proceeds from the issuance of section 15 bonds must be placed in particularly secure assets, as defined by the covered bond act, which in turn are to be placed in separate accounts dedicated to the specific capital center. Any surplus of the cover pool after making payments to covered bonds and section 15 bonds will be transferred to the bankruptcy estate. Not until then will the senior unsecured creditors have access to assets from the cover pool.

We note that the 2007 Danish covered bond legislation amendment introduced the requirement to regularly revalue the collateral securing the mortgage loans to make certain Danish covered bonds compliant with the Capital Requirements Directive. The regulators introduced section 15 bonds to allow MCIs issuing særligt dækkede obligationer and særligt dækkede realkreditobligationer to raise capital to maintain sufficient overcollateralization if the loan-to-value ratio of the mortgage assets were to increase above regulatory limits. Further amendments in 2012 increased the scope for issuance of section 15 bonds to fund additional overcollateralization in general (see "Amendment To Danish Covered Bond Law May Make Covered Bond Ratings More Reliant On Section 15 Bonds," published on April 16, 2013).

#### RELATED CRITERIA AND RESEARCH

##### Related Criteria

- Covered Bond Ratings Framework: Methodology And Assumptions, June 26, 2012
- Methodology And Assumptions For Analyzing Mortgage Collateral In Danish Covered Bonds, May 2, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds, Dec. 16, 2009
- Understanding Standard & Poor's Rating Definitions, June 3, 2009
- European Legal Criteria for Structured Finance Transactions, Aug. 28, 2008

##### Related Research

- Various Outlook Actions On Five Danish Banks Due To Funding Reassessment; All Ratings Affirmed, July 19, 2013
- Amendment To Danish Covered Bond Law May Make Covered Bond Ratings More Reliant On Section 15 Bonds, April 16, 2013
- Ratings Assigned To Nykredit Realkredit's Danish Section 33E Bond Issuances, April 18, 2012
- Ratings Assigned To Realkredit Danmark's Danish Section 33E Bond Issuances, June 19, 2012
- Nykredit Realkredit A/S, Feb. 16, 2012
- Evolution, Not Revolution—Proposed Changes To The Issuance Of Danish Covered Bonds, Jan. 25, 2007

#### RATINGS LIST

Program/Rating	To	From
Country: Covered bond type		

#### OUTLOOKS REVISED

Realkredit Danmark A/S – Capital Centers S and T

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	A-/Stable	A-/Positive
Nykredit Realkredit A/S - Capital Centers D, E, and H	A+/Negative	A+/Stable
BRFkredit A/S - Capital Center E	Prelim A-/Negative	Prelim A-/Stable
DLR Kredit A/S - Capital Center B	BBB+/Stable	BBB+/Positive
Denmark: Danish Section 15 Bonds (Legislation-Enabled Junior Ranking Mortgage Bonds)		

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