

# 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



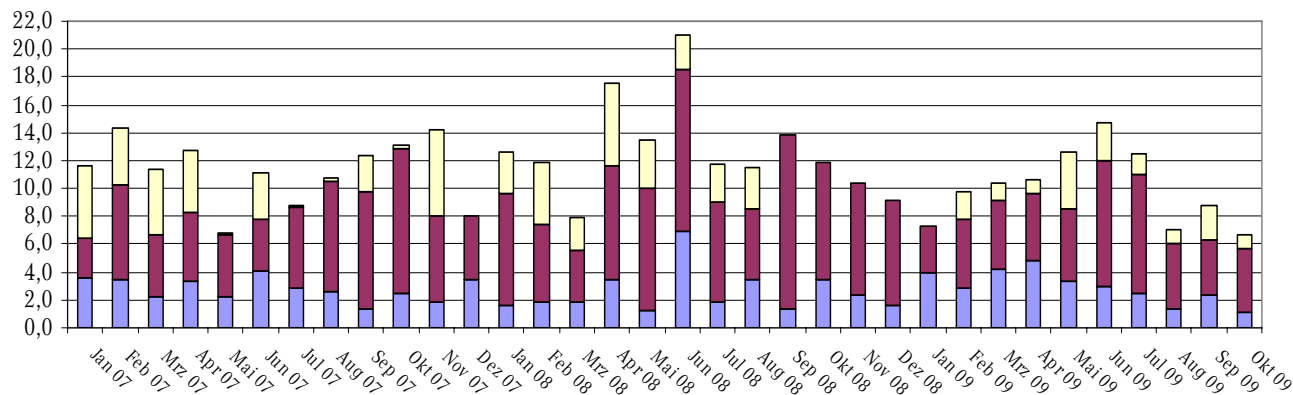
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## Pfandbrief sales Jan 2007 – Oct 2009 (bn Eur/month)



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**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?



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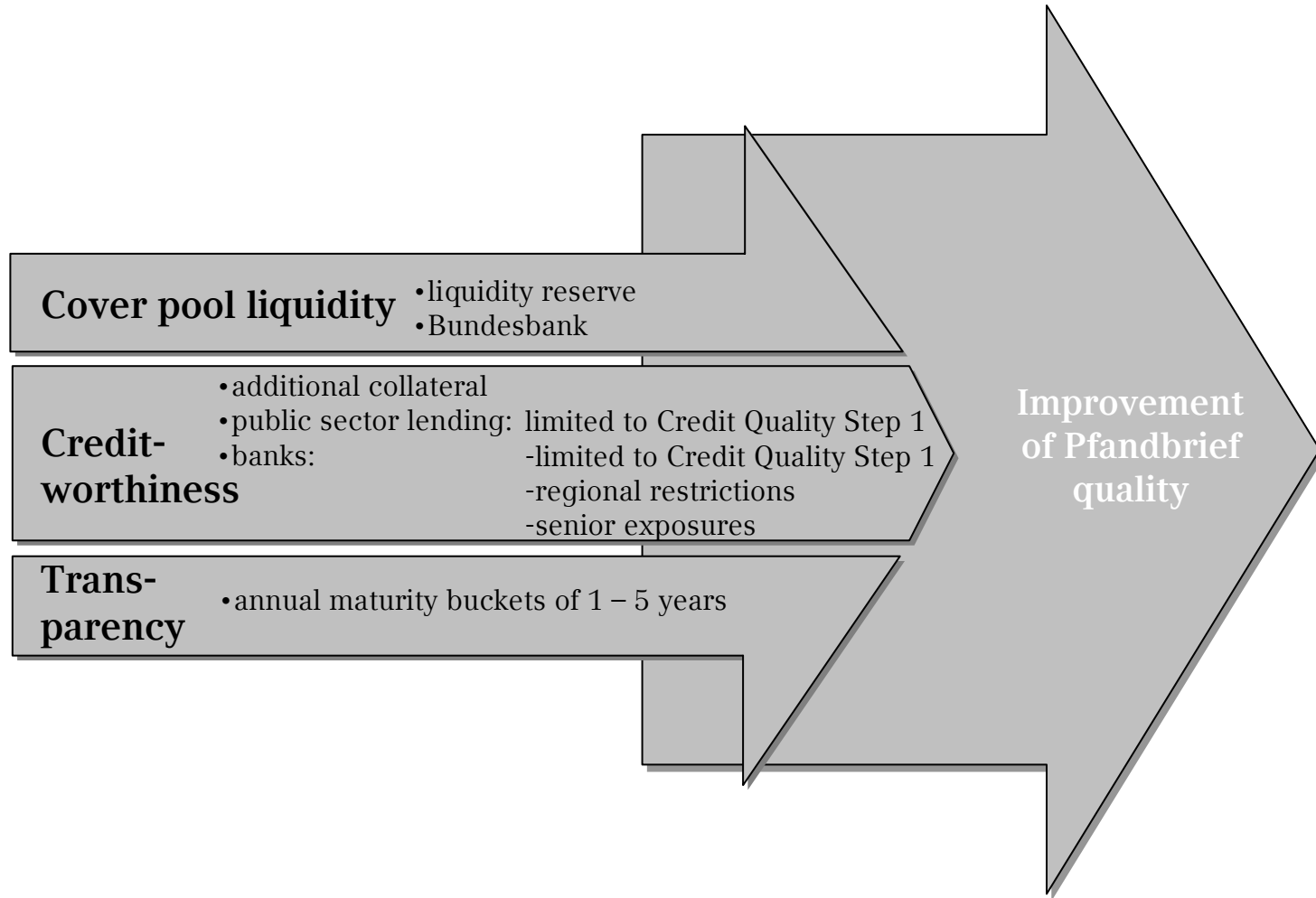
- **Safety:** legal basis
- **Quality:** strictly defined underlyings-mortgages, public sector loans, ship and aircraft mortgages
- **Simplicity:** other than MBS no structuring/subordination; direct look through
- **Transparency:** legal transparency requirements in Art 28 PBA
- **Cover pool liquidity:** 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



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



## Plans to amend the Act yet again in 2010



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- 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



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### 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



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**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



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- 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



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## 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](mailto:tolckmitt@pfandbrief.de)

Christian Walburg

Deputy Head Communications

phone: +49 30 20915-340

email: [walburg@pfandbrief.de](mailto:walburg@pfandbrief.de)

Georgenstraße 21, 10117 Berlin, Germany

[www.pfandbrief.com](http://www.pfandbrief.com)

Tokyo

Hideko Takee

International Financial Consulting K.K. (IFC)

phone: +81 3 5532-8057

email: [h.takee@pr-liaison.com](mailto:h.takee@pr-liaison.com)



























The Prudential Tower, 21st floor, 2-13-10 Nagatacho, Chiyoda-ku

Tokyo 100-0014, Japan



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 <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>Deutsche Pfandbriefbank</b>	 <b>Deutsche Schiffsbank</b>
 <b>DEXIA</b> Kommunalbank Deutschland	 <b>DHB Düsseldorf Hypothekenbank</b>	 <b>DVE</b>	 <b>EURO HYPO</b>	<b>Haspa</b> <sup>+</sup> Hamburger Sparkasse	<b>Helaba</b>    Landesbank Hessen-Thüringen
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