

# Landesbank Hessen-Thüringen Girozentrale

## Mortgage Pfandbriefe Update

### Ratings

Mortgage Pfandbriefe	AAA/Stable Outlook
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### Rating Rationale

IDR/Outlook	A+/Stable
D-Cap	4 notches (Moderate risk)
IDR Uplift	2 notches
Tested rating on a PD basis	'AA'
Recovery uplift	2 notches
Covered Bond Rating	'AAA'
'AAA' Breakeven OC (%)	17.0
OC Fitch considers in its analysis (%)	42.5

IDR – Long-term Issuer Default Rating  
PD – Probability of default  
OC - Overcollateralisation

### Discontinuity Analysis

Asset segregation	Low
Liquidity gap and systemic risk	Moderate
Systemic alternative management	Very Low
Cover pool-specific alternative management	Moderate
Privileged derivatives	Very Low

### Key Data

	Dec 14
Asset type	Residential and Commercial Mortgages
Cover assets (EURbn)	9.9
Pfandbriefe (EURbn) <sup>a</sup>	7.0
Weighted-average life assets (years) <sup>a</sup>	1.6
Weighted-average life Pfandbriefe (years) <sup>b</sup>	4.8

a: based on worst case prepayment rates  
b: including two benchmarks issued in 1H15

### Related Research

[Fitch Affirms Helaba's Mortgage Pfandbriefe at 'AAA'; Outlook Stable \(May 2015\)](#)

[Covered Bonds Surveillance Snapshot \(July 2015\)](#)

[Global Housing and Mortgage Outlook – 2015 \(January 2015\)](#)

[Breaking Down Breakeven Overcollateralisation \(July 2014\)](#)

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### Key Rating Drivers

**Lower Breakeven OC:** Landesbank Hessen-Thüringen Girozentrale's (Helaba, A+/Stable/F1+) mortgage Pfandbrief programme's 'AAA' breakeven overcollateralisation (OC) decreased to 17% from 23% in 2014. The main constituent continues to be the credit loss component which improved to 12.7% from 15.7% previously, following the application of the updated 'Criteria for the Analysis for Commercial Real Estate Loans Securing Covered Bonds' dated 11 May 2015.

**Recoveries-based Rating:** Fitch's breakeven OC is based on recoveries, thus Fitch did not model for timely payment, but calculated the expected recovery given default of the Pfandbriefe programme which is above 91% and allows for two notches recovery uplift. Helaba's IDR of 'A+' adjusted by the IDR uplift of two notches results in a floor for the Pfandbriefe rating at 'AA', irrespective of the actual OC available.

**Improved Credit Loss Remains Driver:** The weighted average (WA) default expectations rose to 92.2% in an 'AAA' scenario from 80.3% due to the removal of explicit diversity credit for granular commercial real estate (CRE) and a modified borrower definition.

Fitch now defines the borrower type based on the owner occupancy status, whereas it formerly relied on the issuer's classification. This has reduced the number of SME borrowers to three from 251. This, however, was offset by improved recovery expectations (to 88.3% from 83.1%), reflecting accrued interest during workout period, in total reducing the credit loss component to 12.7% from 15.7% previously.

**Market Risks Drive Cash Flow Valuation:** As in the previous analysis the cash flow valuation, which remained relatively stable at 10.0% (from 9.6%), is driven by market risks and high prepayment assumptions of up to 30%.

Helaba's Pfandbrief programme exhibits considerable open foreign currency (about 9%) and open interest rate positions. Floating rate assets account for 49% of the cover pool, whereas on 10% of the Pfandbriefe pay a floating rate. No hedges in the form of registered derivatives are in place. The high prepayment assumptions shorten the WA life of the assets to 1.6 years, which compares to 4.8 years for the outstanding Pfandbriefe.

**Prepayments lower Asset Disposal Loss:** The asset disposal loss component decreased to 6% from 9.8%, driven by the higher prepayment rates. As Helaba's Pfandbrief rating is based on recoveries, the asset disposal loss component reflects the stressed valuation of the full cover pool rather than the volume of forced asset sales to bridge maturity mismatches in a probability of default scenario.

### Programme Highlights

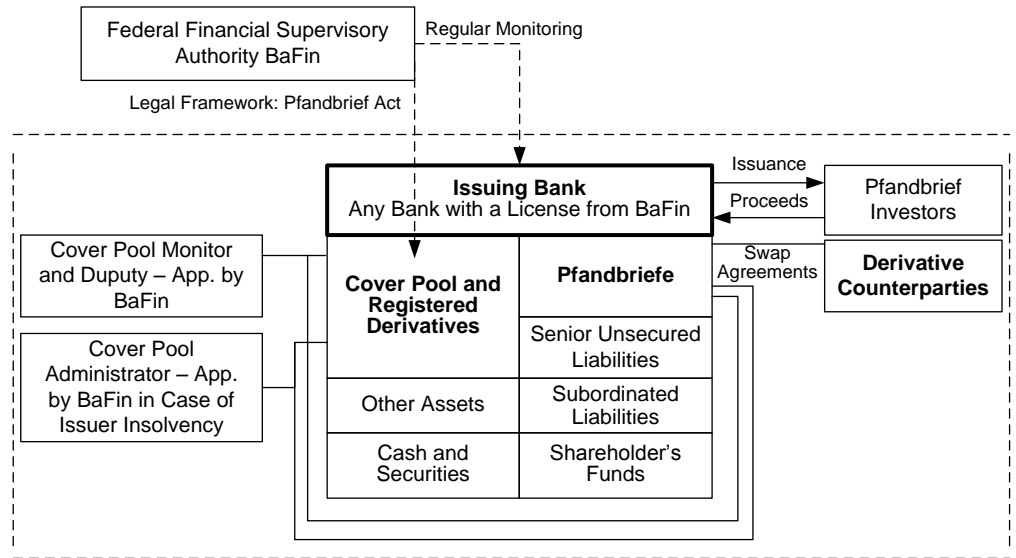
**Concentrated Commercial Portfolio:** The commercial real estate (CRE) sub pool consists almost entirely (99%) of real estate investment companies. Besides offices and industrial exposure, retail and multifamily are also included. Although concentrations are typical for CRE pools, Helaba exhibits a high concentration compared to peers (top 20 borrowers account for 27%). The CRE properties are predominantly located in Germany (81%) and France (6%).

Figure 1  
**Cover Pool Characteristics:  
December 2014**

<b>Total balance (EURbn)</b>	<b>9.9</b>	
Commercial REIC <sup>a</sup> (EURbn)	9.5	
Commercial OpCom <sup>b</sup> (EURbn)	0.1	
Residential (EURbn)	0.1	
Substitute assets (EURbn)	0.2	
<b>Number of borrowers CRE</b>	<b>519</b>	
Number of borrowers REIC	516	
Number of borrowers OpCom	3	
Number of borrowers residential	1,485	
Cover pool LTV commercial (%)	43	
Whole loan LTV commercial (%)	61	
WA DSCR commercial (x)	2.8	
<b>Borrower concentration (%)</b>		
Top 20	27	
Top 5	12	
Top 3	9	
<b>Rate type</b>		
Floating assets (%)	49	
Floating Pfandbriefe (%)	10	
<b>Repayment type (%)</b>		
Instalment	40	
Bullet	37	
Annuity	23	
<b>Currency breakdown (EURbn)</b>		
	<b>Assets</b>	<b>Pfandbriefe<sup>c</sup></b>
EUR	9.1	6.5
GBP	0.1	-
USD	0.2	0.5
SEK	0.2	-
CHF	0.3	-

<sup>a</sup> REIC – Real Estate Investment Companies  
<sup>b</sup> OpCom – Operating Company  
<sup>c</sup> including April 2015 Benchmark issue  
Source: BayernLB/Fitch

Figure 2  
**Diagram of a Pfandbrief Issuance**



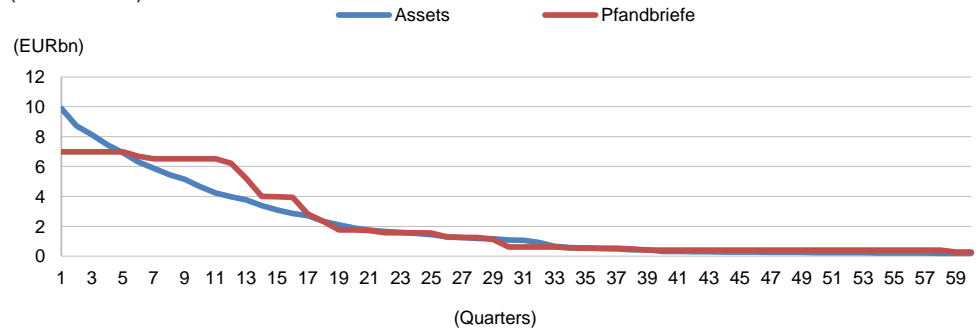
Source: Fitch

Figure 3  
**Fitch Default Model Output (%)**

Rating level	'AAA'	'AA+'	'AA'
WA frequency of foreclosure (WAFF)	92.2	89.1	85.9
WA recovery rate (WARR)	88.3	91.2	94.0

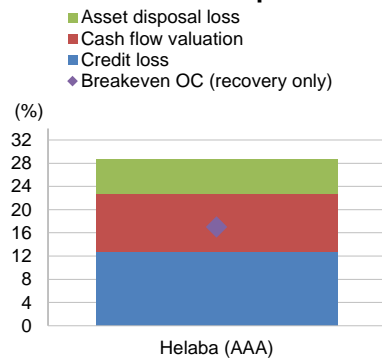
Source: Fitch

Figure 4  
**Amortisation Profile**  
(As of Dec 14)



Source: Fitch/Helaba

Figure 5  
**Breakeven OC Components**

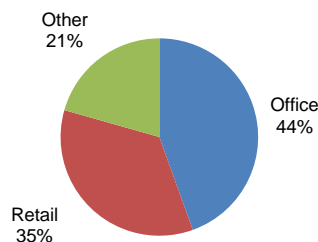


Source: Fitch

### Related Criteria

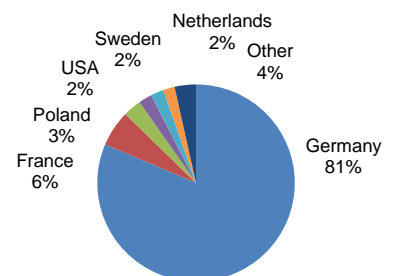
- Covered Bonds Rating Criteria (July 2015)
- CRE Loans Securing Covered Bonds (May 2015)
- Criteria for Interest Rate Stresses in SF Transactions and Covered Bonds (December 2014)
- Counterparty Criteria for Structured Finance and Covered Bonds (May 2014)
- Covered Bonds Rating Criteria – Mortgage Liquidity and Refinancing Stress Addendum (February 2015)
- EMEA RMBS Master Rating Criteria (March 2015)
- EMEA Residential Mortgage Loss Criteria (March 2015)
- EMEA RMBS Cash Flow Analysis Criteria (March 2015)
- Criteria Addendum: Germany (March 2015)

Figure 6  
**Commercial Real Estate - Property Type**  
(% of commercial real estate assets)



Source: Fitch/Helaba

Figure 7  
**Commercial Real Estate - Property Location**  
(% of commercial real estate assets)



Source: Helaba/Fitch

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