

Eiendomskreditt Mortgage Covered Bond Ratings Affirmed At 'AAA'; Outlook Stable

May 22, 2020

Overview

- We have reviewed Eiendomskreditt's mortgage covered bonds program.
- Following our review, we have affirmed our 'AAA' ratings on the covered bond program and related issuances.
- The outlook is stable.

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LONDON (S&P Global Ratings) May 22, 2020--S&P Global Ratings today affirmed its 'AAA' credit ratings on Eiendomskreditt AS' mortgage covered bonds. The outlook is stable.

We have conducted a credit and cash flow analysis based on our criteria for analyzing mortgage collateral in Norwegian covered bonds, our commercial real estate criteria, public sector assets criteria, and our criteria for rating covered bonds (see "Related Criteria").

Based on our credit and cash flow results, we consider the available credit enhancement to support Eiendomskreditt's mortgage covered bond program to be commensurate with our 'AAA' ratings on the program and its related issuances.

In the analysis of industry concentration risk, we apply analytical judgement to reconcile the collateral types provided by the issuer with the industry codes featured in CDO evaluator. This resulted in the application of an industry concentration adjustment to a portion of the cover pool to which we've increased the base foreclosure frequency.

In the analysis of counterparty risk, we apply analytical judgement to determine that the liquidity risk posed by termination costs is mitigated. The potential termination cost of the swaps currently registered in the cover pool is lower than the buffer between the transaction's available credit enhancement and the credit enhancement commensurate with the rating. Based on the nature of the swaps and historical evidence, we expect termination costs to remain below the transaction's unused credit enhancement. In light of this assessment, termination costs and counterparty risk do not constrain the rating. Should potential termination cost exceed the transaction's unused credit enhancement, the maximum supported rating under our counterparty criteria would be lower.

There are no rating constraints related to legal, country, or administrative and operational risks.

As there are no unused notches of uplift in the transaction, the stable outlook on our ratings reflects the stable outlook on the long-term issuer credit rating on Eiendomskreditt.

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S&P Global Ratings acknowledges a high degree of uncertainty about the rate of spread and peak of the coronavirus outbreak. Some government authorities estimate the pandemic will peak about midyear, and we are using this assumption in assessing the economic and credit implications. We believe the measures adopted to contain COVID-19 have pushed the global economy into recession (see our macroeconomic and credit updates here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Policy measures aimed at dampening the economic impact of COVID-19 include forbearance measures for households and small and midsize corporates. Governments and banks in various countries--including Italy, the U.K., France, Sweden, and the Netherlands--have announced support measures for households and small business customers affected by the coronavirus, which could also include the suspension of scheduled mortgage payments. Given the temporary nature of such measures and the recourse to the issuer, we believe that our current credit and cash flow assumptions are still appropriate (see "Global Covered Bonds: Assessing The Credit Effects Of COVID-19," published March 25, 2020).

Related Criteria

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Criteria | Structured Finance | Covered Bonds: Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015
- Criteria | Structured Finance | Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- Criteria | Structured Finance | Covered Bonds: Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities, Dec. 9, 2014
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Global Covered Bond Characteristics And Rating Summary Q1 2020, March 31, 2020
- Global Covered Bond Insights Q1 2020, March 31, 2020
- Global Covered Bonds: Assessing The Credit Effects Of COVID-19, March 25, 2020
- Ratings Placed Under Criteria Observation Due To Revised Counterparty Risk Criteria, March 8, 2019
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, Oct. 16, 2018

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- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, Oct. 16, 2018
- Glossary Of Covered Bond Terms, April 27, 2018

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