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The Mortgage Society of Finland Covered Bond Program Assigned Preliminary 'AAA' Rating; Outlook Stable

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OVERVIEW

- We have assigned preliminary 'AAA' ratings to the mortgage covered bond program and related issuances of Finland-based The Mortgage Society of Finland.
- Our preliminary ratings reflect our review of the program under our covered bonds criteria and the fact that available credit enhancement exceeds the required credit enhancement for a 'AAA' rating.
- The stable outlook reflects the fact that the ratings on the covered bonds benefit from one unused notch of collateral-based uplift.

LONDON (Standard & Poor's) March 31, 2016--Standard & Poor's Ratings Services today assigned preliminary 'AAA' credit ratings to the mortgage covered bond program and related issuances of The Mortgage Society of Finland (Suomen Hypoteekkiyhdistys, or Hypo).

Our covered bond ratings process follows the methodology and assumptions outlined in our "Covered Bonds Criteria," published on Dec. 9, 2014, and "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

From our analysis of Hypo's new program and the Finnish legislative covered bond framework, we have concluded that the assets in the cover pool are isolated from the issuer's insolvency risk. The asset isolation allows us to

rate the covered bond program at a higher rating level than the long-term ICR on Hypo.

We conducted a review of Hypo's mortgage operations, which we view as prudent. We believe there are sufficiently prudent and effective underwriting and servicing procedures in place to support our ratings on the covered bonds.

The covered bonds are eligible for four notches of collateral-based uplift from the jurisdiction-supported rating level (JRL). We expect Hypo to provide a public statement stating their intention to maintain a level of overcollateralization that is consistent with the current rating. We consider that the soft-bullet structure of the planned issuance covers liquidity risk.

Our credit analysis is based on a provisional cover pool as of January 2016. The program's underlying assets comprise €366.7 million of Finnish residential mortgage loans (51.7%) and loans to housing companies (48.3%). Our measure of the weighted-average foreclosure frequency (WAFF; representing the level of defaults) stands at 24.05%, and the weighted-average loss severity (WALS; our measure of possible losses upon default) at 11.06%, based on a 'AAA' stress level.

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We performed a cash flow analysis of the program's proposed €250 million, five-year soft-bullet covered bond. The available credit enhancement of 48.92% exceeds the target credit enhancement of 20.23%.

It is our understanding that the relevant documentation will be updated to include replacement language that is consistent with our criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013).

We assess country risk by applying our nonsovereign ratings criteria (see "Methodology And Assumptions For Ratings Above The

Sovereign--Single-Jurisdiction Structured Finance," published on May 29, 2015). In light of our 'AA+' sovereign rating on Finland, and the country's membership in the eurozone, country risk would not constrain our 'AAA' ratings on the covered bonds.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, May 29, 2015
- Counterparty Risk Analysis In Covered Bonds, Dec. 21, 2015
- Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015
- Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Covered Bonds Criteria, Dec. 9, 2014
- Methodology And Assumptions For Analyzing Mortgage Collateral In Finnish And Norwegian Covered Bonds, Dec. 10, 2014
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013

Related Research

- The Mortgage Society of Finland (Mortgage Covered Bond Program), March 31, 2016
- Banking Industry Country Risk Assessment: Finland, Jan. 25, 2016
- Global Covered Bond Characteristics And Rating Summary Q4 2015, Dec. 29, 2015
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, Dec. 22, 2015
- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, Dec. 22, 2015
- The Mortgage Society of Finland, Sept. 17, 2015

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