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The Mortgage Society of Finland Covered Bonds Outlook Revised To Negative; 'AAA' Ratings Affirmed

June 3, 2020

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Overview

- On May 19, 2020, we revised the outlook on The Mortgage Society of Finland ("Suomen Hypoteekkiyhdistys", or Hypo) to negative from stable on deepening COVID-19 downside risks, the latter resulting in a revision of the economic risk trend for Finland's Banking Industry Country Risk (BICRA) to negative, and affirmed our 'BBB/A-2' long- and short-term credit ratings.
- The ratings on the covered bonds have no unused notches of ratings uplift. This means that if we were to lower our long-term issuer credit rating on Hypo by one notch, we would lower our ratings on the covered bonds, all else being equal.
- We are therefore revising the outlook on Hypo's covered bond program and related issuances to negative from stable.
- At the same time, we have affirmed our 'AAA' ratings on the covered bond program and related issuances.

MADRID (S&P Global Ratings) June 3, 2020--S&P Global Ratings today revised its outlook on The Mortgage Society of Finland ("Suomen Hypoteekkiyhdistys", or Hypo) covered bonds to negative from stable. At the same time, we have affirmed our 'AAA' ratings on the covered bond program and related issuances.

Today's rating actions follow the May 19, 2020, revision to negative from stable of the outlook on Hypo (see "Seven Finnish Banks Outlooks Revised To Negative On Deepening COVID-19 Downside Risks").

Under our covered bonds criteria, the issuer credit rating on Hypo is the starting point from which we determine any potential notches of uplift to arrive at the ratings on the covered bonds. Accordingly the 'AAA' ratings reflect our rating reference level (RRL) of 'a-', the jurisdiction-supported rating level (JRL) of 'aa-' and the available overcollateralization, which together with the covered bonds´ soft bullet maturity and Hypo's publicly stated commitment to maintain overcollateralization consistent with the current rating, allows for four notches of collateral based uplift above the JRL. The covered bonds make use of three notches of uplift to achieve a 'AAA' rating. There are no unused notches of ratings uplift in this program as a one-notch downgrade of our ICR on Hypo would trigger a downgrade of its covered bonds by application of our counterparty risk criteria, all else being equal.

The program benefits from swaps with Nordea Bank AB, Swedbank AB, Danske Bank A/S, and

BNP Paribas S.A., to swap the variable interest earned on the assets to fixed interest payable on the covered bonds. To derive the maximum potential rating on the covered bonds, the counterparty risk criteria, consider various factors, including Hypo's RRL, whether the counterparties are related to Hypo, the concentration exposures to the counterparties, the seniority of termination payments, the replacement commitment, and the collateral posting framework. All swap counterparties are unrelated to Hypo, the counterparty exposure is concentrated (over 25% of exposure is to one counterparty), and swap termination payments rank pari passu with covered bond payments. As per the swap documents, Nordea, Swedbank, and Danske Bank have committed to replacing themselves if their resolution counterparty rating (RCR) falls below 'A-'. Furthermore, if we lower our rating on a swap counterparty below 'A-', the counterparties have each committed to post collateral sufficient to cover Hypo's exposure to that counterparty, plus certain volatility risks in the swap value. We categorize the current collateral-posting framework for the counterparties in the derivative contracts as strong. Although BNP Paribas' commitments are similar, the rating trigger has been set at an RCR of 'A+' and the collateral-posting framework in the derivative contract is categorized as moderate.

The collateral framework assessments, combined with Hypo's current RRL ('a-') and the different replacement triggers, support a maximum potential rating of 'AAA' under our counterparty risk criteria. However, if we were to lower our long-term ICR on Hypo by one notch, we would also lower our ratings on the covered bonds, all else being equal. This is because the resulting lower RRL of Hypo would no longer support a maximum potential rating of 'AAA' under our counterparty risk criteria for the swaps with Nordea, Swedbank, and Danske Bank, all else being equal. As a result, the covered bonds do not benefit from unused notches of uplift.

Therefore, we revised to negative from stable the outlook on the covered bonds to reflect the negative outlook on Hypo. At the same time, we have affirmed our 'AAA' ratings on the covered bond program and related issuances.

The ratings on the covered bonds are not constrained by counterparty, sovereign, legal, and operational risks, in our view.

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
- Criteria | Structured Finance | General: Methodology And Assumptions: Assessing Pools Of European Residential Loans, Aug. 4, 2017
- 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 | General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010

- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Seven Finnish Banks Outlooks Revised To Negative On Deepening COVID-19 Downside Risks, May 19, 2020
- Transaction Update: The Mortgage Society of Finland (Mortgage Covered Bond Program), May 7, 2020
- 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
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, March 3, 2020
- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, March 3, 2020
- S&P Global Ratings' Covered Bonds Primer, June 20, 2019
- Glossary Of Covered Bond Terms, April 27, 2018