

Loan To Value (LTV) for Swedish Cover Pools

Introduction

The Swedish covered bond issuers have agreed to calculate and present certain basic key statistics concerning their respective cover pools as uniformly as possible.

- Cover pool data shall comprise only loans and collateral included in the pool. When a loan is only partially included in the pool, only the eligible part is accounted for.
- In case a loan is secured by both mortgage deeds and a guarantee from the state or municipality, the part of the loan with guarantee will be treated as a public loan, and not included in LTV calculation.
- Loan to Value will be calculated on the principal only.
- Calculation of the aggregate weighted average LTV for a cover pool, will follow a method called “Max LTV per property”. The method is chosen because it is fairly simple and the result is independent of the number of loans or mortgage deeds charging a property. It is also independent of the order of priority for the individual mortgage deeds.
- The weighted average LTV should be supplemented with a diagram showing the distribution of principal balance in “LTV buckets” based on the exact order of priority for the individual mortgage deeds.

Calculation of Weighted Average LTV for a cover pool

LTV for principal loan amounts charging a single property is calculated in the same way as the LTV limit stipulated in the Swedish covered bond legislation: The total principal loan amount from the relevant mortgage institution is allocated to the mortgage deed amounts . The LTV for the individual property is defined as the LTV of the most junior ranking mortgage deed of the relevant mortgage institution, (“**Max LTV per property**”).

The calculated LTV is applied to the whole principal loan amount from an institution charging a property regardless of their actual priority order. Due to this, the resulting LTV on a single property can be considerably higher than if the exact distribution of mortgage deed priority is observed. This may be the case when more than one mortgage institution is involved (see the examples below). However, since this situation is not very common, the impact on the aggregate weighted average LTV for a pool is generally limited.

Finally, based on the LTV calculated for the individual properties, the weighted average LTV is calculated for the pool. Thus, this methodology is very conservative since it assigns a higher aggregate weighted average LTV to a cover pool than is the actual case. Please refer

to the example below for further details, (the above description of exaggeration in LTV figures is evident for Institution A in Property 2 and Property 3).

Distribution of principal loan balance in “LTV buckets”

A more sophisticated and transparent description of the LTV distribution of the pool is obtained by distributing the total principal balance to the exact priority order of the individual mortgage deeds. The Swedish covered bond issuers have agreed to present this in intervals of 10%-units (“LTV buckets”) up to the maximum of 75% as allowed by the Swedish covered bond legislation.

Example

The example below is not representative of a typical cover pool; the aim here is rather to demonstrate the effects of the method on single properties as well as on cover pools.

Three properties, each with a market value of 1 000 000, are charged with loans from two separate mortgage institutions. Priority of the mortgage deeds vary between the properties.

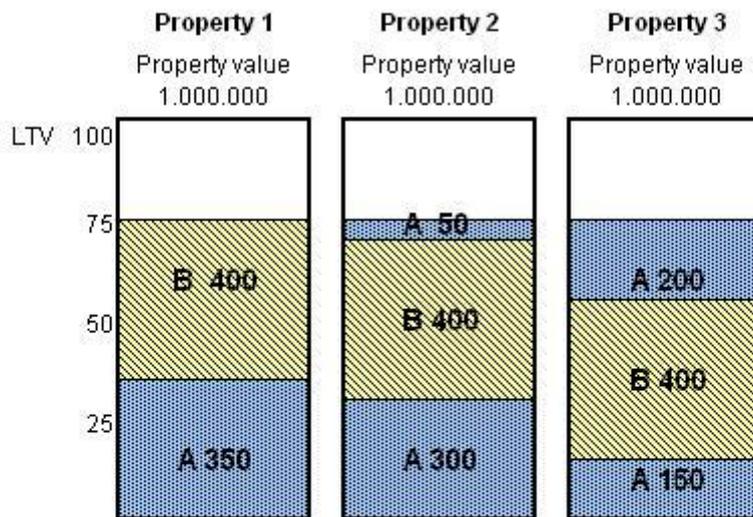
In **property 1** the LTV for institution A is calculated by dividing the principal loan balance 350 with the property value 1.000. The LTV for institution B is calculated by summing the loan amount 400 with the priority 1 mortgage deed of 350 (held by institution A) and then divide with the property value 1.000.

In **property 2** the LTV for institution A is calculated by summing the principle loan balances 300+50 with the priority 2 mortgage deed of 400 (held by institution B) and then divide with the property value 1.000. The LTV for institution B is calculated by summing the loan amount 400 with the priority 1 mortgage deed of 300 (held by institution A) and then divide with the property value 1.000.

In **property 3** the LTV for institution A is calculated by summing the principle loan balances 150+200 with the priority 2 mortgage deed of 400 (held by institution B) and then divide with the property value 1.000. The LTV for institution B is calculated by summing the principle loan balance 400 with the priority 1 mortgage deed of 150 (held by institution A) and then divide with the property value 1.000.

Note the large difference in LTV on the single properties for Institution A and how the LTV on property 2 increases the weighted average LTV in Institution A.

1. Calculation of Weighted Average LTV for a cover pool



Institution A	Loan 350	Loan 300	Loan 150	
Mortgage deeds	350/350	300/300 50/750	150/150 200/750	
Property value	1 000	1 000	1 000	
Calculation of LTV	$=350 / 1000 * 100$	$=(300+400+50) / 1000 * 100$	$=(150+400+200) / 1000 * 100$	Weighted average LTV
Max LTV	35,0%	75,0%	75,0%	61,7%

Institution B	Loan 400	Loan 400	Loan 400	
Mortgage deeds	400/750	400/700	400/550	
Property value	1 000	1 000	1 000	
Calculation of LTV	$=(350+400) / 1000 * 100$	$=(300+400) / 1000 * 100$	$=(150+400) / 1000 * 100$	Weighted average LTV
Max LTV	75,0%	70,0%	55,0%	66,7%

2. Distribution of principal loan balance in "LTV buckets"

