

Regulations and guidelines 7/2012

Reporting of mortgage bank operations

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FINANSSIVALVONTA

tel. +358 10 831 51
fax +358 10 831 5328

firstname.surname@finanssivalvonta.fi
www.fin-fsa.fi

Further information from
Prudential Supervision/Market and Operational Risks
Prudential Supervision/Credit Risks



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1 Scope of application and definitions

1.1 Scope of application

- (1) These regulations and guidelines apply to the following supervised entities as referred to in the Act on the Financial Supervisory Authority:
 - mortgage banks as referred to in section 5 of the Act on Mortgage Credit Bank Operations (MCBOA)
 - deposit banks and credit firms which have been granted authorisation by the Financial Supervisory Authority (FIN-FSA) to conduct mortgage bank operations as referred to in section 10 of the MCBOA.
- (2) Section 34, subsection 2 of the MCBOA lays down that the provisions of the Act shall not apply to covered bonds issued or derivative contracts registered before the entry into force of the Act. Unless otherwise agreed, the relevant provisions in sections 9, 9a and 17 of the repealed Act shall still apply to such loans.
- (3) In reporting the data referred to in these regulations and guidelines, the data on bonds issued before 1 August 2010 and derivative contracts registered before the same date shall be valued according to the relevant provisions in sections 9, 9a and 17 of the repealed MCBOA (1240/1999) instead of the provisions in the MCBOA (688/2010).

1.2 Definitions

- (4) In these regulations and guidelines *supervised entity* refers to all the companies within the scope of application.
- (5) *Pool* refers to such a part of the bond register where the registered collateral forms collateral for, for example, the covered bonds issued as part a certain securities issue or a certain program.
- (6) *Collateral portfolio* refers to all mortgage loans, loans to the public sector, temporary collateral and hedges included in the aggregate portfolio amount.
- (7) The *loan-to-value ratio (LTV)* is calculated by dividing the amount of the residential or commercial property mortgage by the amount of the asset used as collateral for the mortgage loan. In calculating the average LTV percentage for residential or commercial property mortgages included in the pools or the collateral portfolio, the total loan amount is used as the weight coefficient and the fair value recorded in the bank's systems as the collateral value.

2 Legal framework

2.1 Legislation

(1) These regulations and guidelines relate to the following statute:

- the Act on Mortgage Credit Bank Operations (MCBOA) (688/2010).

2.2 FIN-FSA's regulatory powers

(2) FIN-FSA's power to issue binding provisions on the topic in question is based on section 18, subsection 2 of the Act on the Financial Supervisory Authority (878/2008).

3 Objectives

- (1) The objective of these regulations and guidelines is to lay down the reporting obligations as regards mortgage bank operations and provide instructions for how to fill in the report form.
- (2) The regulations and guidelines are necessary for supervision of the reliability and stability of the banking system and in order to protect the public and the holders of covered bonds against, among other things, the risk of losing repayable funds.

4 Reporting to FIN-FSA

4.1 Submission of information for supervisory purposes

GUIDELINE (paragraphs 1–3)

- (1) Information is collected on the mortgage bank operations conducted by deposit banks, credit firms and mortgage banks via the KP reporting to the Virati Authority Task Force. The KP reporting only comprises information according to the MCBOA. The collected information is used for FIN-FSA's supervisory purposes and for preparing statistics.
- (2) The reporting programs can be downloaded from Jakelu Distribution Service from the address www.finanssivalvonta.fi/Jakelu.
- (3) Mortgage banks' category of reporting institutions in the KP reporting to the Virati Authority Task Force is 210. Deposit banks and credit firms which have been granted authorisation by FIN-FSA to conduct mortgage bank operations as referred to in section 10 of the MCBOA belong to category 201.

REGULATION (paragraphs 4–9)

- (4) According to the valid reporting schedule of the Virati Authority Task Force, the supervised entity shall quarterly submit its KP reports on its position as of 31 March, 30 June, 30 September and 31 December (the reporting dates). The reports shall be submitted within 15 business days from the reporting date (submission period). Business days refer to days when deposit banks are normally open.
- (5) In the KP reports, monetary amounts shall be rounded to the nearest thousand euro and percentages to two decimal places with no percentage sign; counts must be exact.
- (6) If a reported supervisory piece of information later proves to be incorrect, the supervised entity shall submit a full report to FIN-FSA substituting for the earlier data.
- (7) The information shall be reported by pool except for the rows in paragraph (8) below. In the workbook, there is a separate column for each pool. A Pools total column shows aggregate pool data. The supervised entity shall make sure that both the data in the separate pool columns and in the Pools total column are correct.
- (8) The following rows form an exception to the rule that information shall be reported by pool. In these rows the supervised entity shall enter data in the Pools total column.
 - row R 40 10 average LTV percentage for residential mortgages included in the collateral portfolio



- row R 45 10 average LTV percentage for commercial property mortgages included in the collateral portfolio
- row R 60 aggregate market value of residential and commercial property collateral statistically calculated
- row R 60 05 market value of residential collateral statistically calculated
- row R 60 10 market value of commercial property collateral statistically calculated
- row R 80 05 average remaining maturity of all covered bonds in the register
- row R 80 15 average maturity of all loans included in the bond register according to section 17, subsection 1 of the MCBOA
- rows R 85–R 85 25 changes in the register.

(9) In rows R 10–R 50 10 collateral for intermediary loans shall also be reported.

4.2 Report of mortgage bank operations

REGULATION (paragraphs 10–34)

(10) In the rows in the KP reporting forms, the supervised entity shall fill in the required data as provided in paragraphs (11)–(62) of this section.

(11) *Pool name*

In form KP1, the pool names shall be entered. The entered names shall remain unchanged from one reporting period to another. If it becomes necessary to change the name for technical or other reasons, the supervised entity shall contact FIN-FSA.

(12) In form KP2, the following data shall be entered:

(13) R 05 *Aggregate covered bonds issued*

Enter here the aggregate remaining capital of covered bonds issued.

(14) R 10 *Aggregate loans placed as collateral for covered bonds*

Enter here the aggregate collateral for covered bonds.

(15) R 15 *Proportion of excess collateral*

Enter here the difference in euro between the aggregate collateral for covered bonds and the aggregate remaining capital of covered bonds (section 16 of the MBBOA).

(16) R 20 *Excess collateral percentage*

Enter here in decimal form the difference in euro between the aggregate collateral for covered bonds and the aggregate remaining capital of covered bonds as a ratio to covered bonds (section 16 of the MCBOA).

- (17) R 25 *Aggregate current value of cash flows from collateral for covered bonds*
- Enter here the current value of remaining cash flows from loans placed as collateral. The future cash flows from variable rate contracts shall be evaluated using a method that is documented in writing and approved by the Board of the bank. The valuation of future interest cash flows from variable rate contracts may, for example, be based on the forward rate yield curve derived from the interest rate swap yield curve. The aggregate collateral amount shall include in the bond register derivative contracts that have been concluded to protect the covered bonds and the assets placed as collateral for the bonds (section 16 of the MCBOA).
- (18) R 30 *Aggregate current value of payment obligations due to covered bonds*
- Enter here the current value of payment obligations due to covered bonds. The future cash flows from variable rate contracts shall be evaluated using a method that is documented in writing and approved by the Board of the bank. The valuation of future interest cash flows from variable rate contracts may, for example, be based on the forward rate yield curve derived from the interest rate swap yield curve. The aggregate collateral amount shall include in the bond register derivative contracts that have been concluded to protect the covered bonds and the assets placed as collateral for the bonds (section 16 of the MCBOA).
- (19) R 35 *Excess collateral percentage calculated on the current values*
- Enter here in decimal form the difference between the aggregate current value of cash flows from collateral for covered bonds and the aggregate current value of payment obligations due to covered bonds as a ratio to payment obligations due to covered bonds (section 16 of the MCBOA).
- (20) R 40 *Residential mortgages*
- Enter here the aggregate residential mortgages.
- (21) R 40 05 *Average LTV percentage*
- Enter here the weighted average LTV percentage for residential mortgages. In calculating the average LTV percentage, use the total loan amount as the weight coefficient and the fair value of the residential collateral recorded in the bank's systems as the collateral value.
- (22) R 40 10 *Average LTV percentage for residential mortgages included in the collateral portfolio*
- Enter here the average LTV percentage for all residential mortgages included in the collateral portfolio.
- (23) R 40 15 *Number*
- Enter here the number of residential mortgages.

- (24) R 40 20 *Average loan amount (average account balance)*
Enter here the average loan amount of residential mortgages. In calculating the average loan amount, use the total loan amount, not just the proportion eligible as collateral.
- (25) R 45 *Commercial property mortgages*
Enter here the aggregate commercial property mortgages.
- (26) R 45 05 *Average LTV percentage*
Enter here the weighted average LTV percentage for commercial property mortgages. In calculating the average LTV percentage, use the total loan amount as the weight coefficient and the fair value of the commercial property collateral recorded in the bank's systems as the collateral value.
- (27) R 45 10 *Average LTV percentage for commercial property mortgages included in the collateral portfolio*
Enter here the average LTV percentage for all commercial property mortgages included in the collateral portfolio.
- (28) R 45 15 *Number*
Enter here the number of commercial property mortgages.
- (29) R 45 20 *Average loan amount (average account balance)*
Enter here the average loan amount of commercial property mortgages. In calculating the average loan amount, use the total loan amount, not just the proportion eligible as collateral.
- (30) R 45 25 *Proportion of commercial property mortgages*
Enter here in decimal form the proportion of commercial property mortgages in the loans placed as collateral for covered bonds.
- (31) R 45 25 05 *If the value on row R 45 25 exceeds 10%, is this due to the terms of the covered bond?*
Enter here either 1 (=Yes) or 0 (=No). Leave the row blank, if the value in row R 45 25 does not exceed 10%.
- (32) R 50 *Loans to the public sector*
Enter here the aggregate amount of loans to the public sector.
- (33) R 50 05 *Number*
Enter here the number of loans to the public sector.
- (34) R 50 10 *Average loan amount (average account balance)*
Enter here the average amount of loans to the public sector. In calculating the average loan amount, use the total loan amount, not just the proportion eligible as collateral.

4.2.2 Supplementary collateral – section 15 in the MCBOA

REGULATION (paragraphs 35–41)

- (35) R 55 *Bonds and other debt instruments*
Enter here the aggregate euro amount of bonds and other debt instruments (section 15, subsection 1, paragraph 1 of the MCBOA).
- (36) R 55 05 *Absolute guarantee provided by public sector entity or credit institution*
Enter here the aggregate euro amount of absolute guarantees provided by public sector entities and credit institutions (section 15, subsection 1, paragraph 2 of the MCBOA).
- (37) R 55 10 *Credit insurance provided by insurance company*
Enter here the aggregate euro amount of credit insurances provided by insurance companies (section 15, subsection 1, paragraph 3 of the MCBOA).
- (38) R 55 15 *Cash / deposits*
Enter here the aggregate euro amount of deposits in the Bank of Finland or in credit institutions (section 15, subsection 1, paragraph 4 of the MCBOA).
- (39) R 55 20 *Aggregate euro amount of supplementary collateral*
Enter here the aggregate euro amount of supplementary collateral.
- (40) R 55 25 *Aggregate supplementary collateral as a percentage of loans included in collateral portfolio (max. 20%)*
Enter here aggregate supplementary collateral as a percentage of loans included in the collateral portfolio by pool and for all pools combined.
- (41) R 55 30 *Supplementary collateral consisting of claims on credit institutions as a percentage of loans included in collateral portfolio (max. 15%)*
Enter here supplementary collateral consisting of claims on credit institutions as a percentage of loans included in the collateral portfolio by pool and for all pools combined.

4.2.3 Value changes in collateral portfolio – section 14, subsection 1 of the MCBOA

REGULATION (paragraphs 42–47)

- (42) R 60 *Aggregate market value of residential and commercial property collateral statistically calculated*
Enter here the aggregate market value of residential and commercial property collateral for covered bonds calculated using an acceptable statistical method.

- (43) R 60 05 *Market value of residential collateral statistically calculated*
Enter here the aggregate market value of residential collateral for covered bonds calculated using an acceptable statistical method.
- (44) R 60 10 *Market value of commercial property collateral statistically calculated*
Enter here the aggregate market value of commercial property collateral for covered bonds calculated using an acceptable statistical method.
- (45) R 65 *Aggregate fair value of residential and commercial property collateral recorded in the bank's systems*
Enter here the aggregate fair value of the residential and commercial property collateral for covered bonds of a pool, that is the collateral recorded in the supervised entity's systems for loans or collateral.
- (46) R 65 05 *Fair value of residential collateral recorded in the bank's systems*
Enter here the aggregate fair value of the residential collateral for covered bonds of a pool, that is the collateral recorded in the supervised entity's systems for loans or collateral.
- (47) R 65 10 *Fair value of commercial property collateral recorded in the bank's systems*
Enter here the aggregate fair value of the commercial property collateral for covered bonds of a pool, that is the collateral recorded in the supervised entity's systems for loans or collateral.

4.2.4 Requirements pertaining to intermediary loans – section 16, subsection 6 of the MCBOA

REGULATION (paragraphs 48–49)

- (48) R 70 *Value of loans placed as collateral for intermediary loans*
Enter here the aggregate value of mortgage loans or loans to the public sector placed as collateral for intermediary loans registered by pool.
- (49) R 75 *Capital of intermediary loans*
Enter here the capital amount of intermediary loans registered by pool.

4.2.5 Liquidity requirements – section 17 of the MCBOA

REGULATION (paragraphs 50–56)

- (50) R 80 *Average remaining maturity of covered bonds by pool*
Enter here the average maturity of covered bonds as the average, weighted by the current values, of the remaining maturities pertaining to the remaining cash flows from the contracts. The current value shall be calculated by discounting the nominal value of the future cash flow to the present time. Derivatives shall be included in the calculation of the average maturity.

- (51) R 80 05 *Average remaining maturity of all covered bonds in the register*
Enter here the average remaining maturity of all covered bonds in the register.
- (52) R 80 10 *Average maturity by pool of loans placed as collateral*
Enter here the average maturity of loans by pool as the average, weighted by the current value, of the remaining maturities pertaining to the remaining cash flows. The current value shall be calculated by discounting the nominal value of the future cash flow to the present time. Derivatives shall be included in the calculation of the average maturity.
- (53) R 80 15 *Average maturity of all loans included in the bond register according to section 17, subsection 1 of the MCBOA*
Enter here the average maturity of all loans included in the register according to section 17, subsection 1 of the MCBOA as the average, weighted by the current value, of the remaining maturities pertaining to the remaining cash flows. The current value shall be calculated by discounting the nominal value of the future cash flow to the present time. Derivatives shall be included in the calculation of the average maturity.
- (54) R 80 20 *Interest income and cash inflows from counterparties in derivative contracts during the next 12 months*
Enter here interest income and cash inflows from counterparties in derivative contracts during the next 12 months based on assets included in aggregate collateral for covered bonds. The future cash flows from variable rate contracts shall be evaluated using a method that is documented in writing and approved by the Board of the bank. The valuation of future interest cash flows from variable rate contracts may, for example, be based on the forward rate yield curve derived from the interest rate swap yield curve.
- (55) R 80 25 *Interest payments and cash outflows to counterparties in derivative contracts during the next 12 months*
Enter here interest payments for covered bonds and cash outflows to counterparties in derivative contracts during the next 12 months. The future cash flows from variable rate contracts shall be evaluated using a method that is documented in writing and approved by the Board of the bank. The valuation of future interest cash flows from variable rate contracts may, for example, be based on the forward rate yield curve derived from the interest rate swap yield curve.
- (56) R 80 30 *Is the difference between interest inflows and outflows positive for any period of 12 successive calendar months (incl. derivative contracts) considering the interest rate stress scenario?*
Enter here either 1 (=Yes) or 0 (=No). The supervised entity shall ensure that the aggregate interest accrued on the assets included in the aggregate collateral, during any period of 12 successive calendar months, is sufficient to cover the total amount of interests payable to holders of covered bonds and payments to counterparties in derivative contracts during the same



period. The total amount of interest receivable for any 12-month period must exceed the corresponding amount of interest payable also when a +/- 1 percentage point parallel shift is made to the yield curve used in the valuation of variable rate contracts.

4.2.6 Changes in the register

REGULATION (paragraphs 57–62)

- (57) R 85 *Aggregate loans registered according to section 12 of the MCBOA but not included in the collateral portfolio value at all*
- Enter here aggregate loans not included in the value of the collateral portfolio at all.
- (58) R 85 05 *Aggregate loans on row R 85 as a percentage of the collateral portfolio value*
- Enter here the percentage of registered loans not included in the value of the collateral portfolio.
- (59) R 85 10 *Number of loans removed from the register according to section 14, subsection 1 of the MCBOA since the previous report*
- Enter here the number of loans removed from the collateral portfolio of a pool in the register during the previous three-month period because the fair value of the collateral was exceeded.
- (60) R 85 15 *Aggregate loans removed from the register according to section 14, subsection 1 of the MCBOA since the previous report*
- Enter here aggregate loans removed from the collateral portfolio of a pool in the register during the previous three-month period because the fair value of the collateral was exceeded.
- (61) R 85 20 *Number of loans removed from the register according to section 16, subsection 2 of the MCBOA since the previous report*
- Enter here the number of loans removed from the collateral portfolio of a pool in the register during the previous three-month period because they have been recognised as non-performing.
- (62) R 85 25 *Aggregate loans removed from the register according to section 16, subsection 2 of the MCBOA since the previous report*
- Enter here aggregate loans removed from the collateral portfolio of a pool in the register during the previous three-month period because they have been recognised as non-performing.

4.3 Verification of reported data

REGULATION (paragraph 63)

- (63) The supervised entity shall prepare a declaration on the accuracy of data reported according to these regulations and guidelines. The declaration shall be dated and signed

by both the person that prepared the report and the person that prepared the accuracy declaration. The signed declaration must be kept by the supervised entity and presented to FIN-FSA on request. The supervised entity shall prepare the declaration in connection with the first report and update it whenever changes occur in the process described.

GUIDELINE (paragraphs 64–65)

- (64) A model declaration and instructions for the preparation of such a declaration are available on FIN-FSA's website (www.fin-fsa.fi) under Regulation.
- (65) According to section 39, subsection 1 of the Act on the Financial Supervisory Authority, FIN-FSA may impose an administrative fine on anyone who fails to comply with or violates the obligation to provide the Financial Supervisory Authority with the information required on the basis of these regulations and guidelines.