

Rating Action: Mortgage and Land Bank of Latvia - Covered Bonds

MOODY'S CONFIRMS A1 RATING OF DOMESTIC CURRENCY SECURED MORTGAGE BONDS ISSUED BY MORTGAGE AND LAND BANK OF LATVIA

London, 10 March 2003 -- Moody's has confirmed the A1 rating of the domestic currency secured mortgage covered bonds issued by the Mortgage and Land Bank of Latvia. The bonds were placed on review for possible upgrade in December 2002 following the revision by the Latvian authorities of the legislation in regard to mortgage bonds. The bank's unsecured ratings are A2/P-1, and its financial strength rating is D-.

The review for possible upgrade focused on whether the revised legislation in regard to mortgage bonds issued in Latvia materially enhanced the security features of that debt instrument. Moody's review concluded that although the legislative framework has indeed been strengthened to a degree, the additional features would not justify upgrading the rating of the mortgage bonds of the Mortgage and Land Bank of Latvia beyond the current level of A1

Moody's added that the Latvian legislation was strengthened with respect to (1) a legally enforceable requirement for 10% over-collateralisation, (2) improved ALM guidelines and (3) greater clarity with respect to the treatment of mortgage bonds in case of issuer insolvency. In Moody's view, these features are broadly positive and would mainly contribute toward a somewhat lower severity of loss in case of acceleration rather than significantly reduce the bonds' probability of default. Moody's will be commenting in greater detail about the revised Latvian framework in an upcoming report.

The Latvian legislation commits the authorities to creating or selecting a bank to act as a "white knight" in the event of insolvency / bankruptcy of the issuing entity, but Moody's expressed reservations as to whether a suitable candidate could in fact be found or created and commented that, if indeed a bank were selected / created then, given the relatively immature nature of the Latvian financial system, doubt would still exist as to whether that bank would be in a position to mitigate any substitution risk arising from the cover pool. The provisions of Latvian law concerning substitute assets are aimed at ensuring that these are created with assets carrying a risk of close to 0%, including Latvian Treasury bills with a risk level the same as that of the State of Latvia. The pool of eligible substitute assets which can be drawn upon remains, a relatively shallow pool at present although Moody's noted that the existing asset pool is likely to be extended once Latvia has joined the EU.

Moody's said that the legal framework for the issuance of mortgage bonds in Latvia was established under the "Law on Mortgage Bonds" (1998), which sets out the conditions under which a bank may secured mortgage bonds. It was subsequently revised in November 2002. One feature of the law distinguishes it from those of several other countries -- namely that any bank complying with the provisions of the law, not only specialised mortgage banks, has the right to issue mortgage bonds. However, at present the Mortgage and Land Bank of Latvia is the only bank in Latvia with the right to issue mortgage bonds.

The Mortgage and Land Bank of Latvia which is headquartered in Riga and 100% owned by the Latvian state had assets of LVL108 million or USD170 million at end 2001.

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