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Covered Bonds Cash Flow Model

Model Summary Document (MSD)

1. Model Purpose and Description

The Covered Bonds Cash Flow Model is a ratings model that produces the overcollateralisation supporting timely payment for covered bonds in a given, notch-specific rating case. A scenario is determined by the stress assumptions and issuer default timings tested. For each rating case, the overcollateralisation supporting timely payment is calculated as the sum of two components. These are credit loss and asset & liability mismatches loss (ALM loss).

The credit loss is calculated based on the rating default rate and rating recovery rate produced in the relevant asset specific model. The ALM loss is based on the cash flow profile of cover assets' versus covered bonds'.

Cash flow modelling is used to determine the cost of sales and reinvestment cost, resulting from maturity mismatches between assets and liabilities. Depending on the programme, the ALM loss may further incorporate the effect of a Negative Carry Factor if included as part of an Asset Cover Test, as well as Pass-Through and SARA (Selected Assets Required Amount) constraints.

2. Model Assumptions

The assumptions in the model are based on Fitch's Covered Bonds Rating Criteria.

3. Model Inputs

The main inputs can be split into the following categories:

- Run configuration (analysis date, payment frequency, rating cases to be run)
- Assets (currency, asset type, country, etc.)
- Bonds (currency, amortisation type)
- Macro-economic inputs (currency base rates, exchange rates)
- Programme specific inputs (issuer default timing, bond extension, pass-through, etc.)
- Stress tests (prepayment, servicing fees, interest rate stress, etc.)

4. Model Development Data

Not applicable to this rating model as it does not use historical data for its development and calibration, and it only uses transaction specific data and other related data as described in the relevant criteria and/or RAC.

5. Model Limitations

The model is intended only to analyse Covered Bonds programmes based on the criteria listed above.

6. Material Changes

The current model version is 2.2.3. Any future material changes will be disclosed in this section.

Contact Information

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