

ISSUER COMMENT

07 OCTOBER 2014

RATINGS

Sor Boligkreditt

Closing date	2010
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Rating	Aaa
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Source: *Moody's.com*

Technical delay in Sor's covered bond payment has no credit impact

On the 26th of September 2014, Sor Boligkreditt failed to repay a maturing covered bond due to a technical error in the payment process. ¹ The error does not affect the credit quality of the programme and is extremely unlikely to occur again. In addition, the case illustrates that such an operational error does not result in the default of the covered bond.

The error does not affect the credit quality of the programme

The missed payment is due to an operational error, in which the custodian (DNB Bank ASA, A1/P-1) failed to update the bond's maturity date in its system when it was amended in September 2011 (from 28th September 2015 to 26th September 2014). ² However, the cash to repay the bond was available in the issuer's account, and the bank immediately ordered the bond's repayment once the error was acknowledged -- which completed on the next business day (29th of September 2014). Moreover, investors received three days of additional interest for the repayment delay.

The error is highly unlikely to occur again in the future

The issuer confirmed the maturity dates of the outstanding covered bonds were correctly set in the payment chain so that the error will not happen again in the future.

This type of operational error does not trigger a default of the covered bond under the contractual agreement

Moody's definition of default is intended to capture events whereby issuers fail to meet their debt-service obligations as outlined in original credit agreements and indentures, and which subject those creditors to economic loss.

According to the contractual documentation of the programme, upon failure of the issuer to fulfill its payment obligation, the maturity is automatically extended by one year. As a consequence of this feature of the programme -- a Norwegian standard -- there has been no default of the covered bonds. In addition, because the cash was already available in the issuer's account, the bond trustee did not need to call the liquidity facility granted by Sparebanken Sor (A2/P-1), the sponsor bank to the issuer (Sor Boligkreditt).

Moody's Related Research

Methodology

- » [Moody's Approach to Rating Covered Bonds](#)
- » [Moody's Approach to Rating Structured Finance Securities in Default](#)

New Issue Report

- » [Sor Boligkreditt](#)

Special Report

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Endnotes

- 1 The maturing bond was the FRN Pluss Boligkreditt Covered Bond Issue 2009/2014 (Extendable to 28 September 2015), ISIN 001050342.8.
- 2 The 2011 amendment aligned the maturity mechanism of the bond to the Norwegian standards. While the maturity was initially scheduled for September 2015, with a call at the issuer's option in September 2014, the maturity was changed to September 2014 with an extended maturity to September 2015.

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