

MEMORANDUM

The Danish FSA

23 November 2020

Statement on inspection at Sydbank A/S (lending to rental properties and property projects)

In June 2020 the Danish FSA conducted an inspection at Sydbank. The main objective was to assess the bank's risk appetite and practice in connection with approving loans to customers owning rental properties and property projects.

Summary and risk assessment

The FSA reviewed 37 loan approvals processed by the bank in the period after 1 January 2019.

The bank's risk analysis could be improved. In some cases information about the financed property was incomplete and in quite a few instances relevant sensitivity analyses were missing. This is particularly important where newly built properties or properties under construction or development are not fully pre-sold or where the rental income of the properties may be subject to special uncertainty in the long term. This is key even though the bank does not itself provide any subsequent financing because it could create uncertainty about the subsequent financing to be provided by way of mortgage credit. Furthermore the bank's credit policy does not clearly state that property financing is predominantly based on subsequent financing being provided by mortgage credit institutions.

The bank was ordered to ensure sufficient information about the properties to be financed and to improve the risk analyses. In particular if the bank is to provide subsequent financing or if there could be uncertainty as to any external subsequent financing.