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The European Central Bank has authorised LHV Pank AS to issue bonds at the proposal of Finantsinspektsioon. This allows LHV to start issuing bonds, but at the same time it must hold sufficient loans and liquid assets in its covered bond portfolio. Nothing will change for clients who have taken a loan from the bank.

A covered bond is a bond for which the collateral is mainly loans issued to clients of the bank. To protect investors, the bank must hold sufficient liquid assets in its covered bond portfolio to cover the payments it will make on the bonds. The amount of collateral that the bank holds has to be larger than the liabilities arising from the bonds.

The issue of covered bonds will change nothing for people who have taken a housing loan from LHV. If a loan is added to the covered bond portfolio, then the client will continue to pay the loan principal and interest just as before. If the bank that has issued covered bonds becomes insolvent, the repayments of claims on the real estate that the loan was for will not be sold, but will be separated from other bankruptcy assets.

Covered bonds are different from other bonds because the collateral for them is the claims of the bank on those it has issued real estate loans to, or on the state or local governments. Banks are only allowed to issue covered bonds if they have applied for a separate authorisation