

# German Covered Bonds

**Abstract** With a history that goes back to the eighteenth century and a high market share in today's covered bond markets, the German Pfandbrief is the most established covered bond. Until today, no single Pfandbrief has ever defaulted. Even though Pfandbriefe have survived the financial crisis comparably unharmed, investors have become more sensitive regarding the creditworthiness of the corresponding issuer and sovereign, the strength of the legal (or contractual) framework and the quality of the cover pool serving as collateral. This monograph provides a structured in-depth analysis of the legal framework and the risks inherent in a Pfandbrief, taking into consideration recent market developments. Starting from the legal framework, the German Pfandbrief is introduced without requiring prior knowledge. Covered bond related risks are explained in detail and their relevance to the Pfandbrief is thoroughly discussed with focus on the two most common Pfandbrief types, Mortgage and Public Pfandbriefe. In addition to that, the monograph comes with an extensive collection of Pfandbrief-related literature and a glossary explaining the main technical terms.

**Keywords** Pfandbrief · Covered bond · Structured covered bond · Cover pool · Mortgage covered bond · Public sector covered bond · Financial risk analysis · Legal framework · Cover requirements

## 1 Introduction

With a history that goes back to the eighteenth century and a high market share in today's covered bond markets, the German Pfandbrief is the most established *covered bond*. Until today, no single Pfandbrief has ever defaulted, and the Pfandbrief is one of few financial instruments that have survived the financial crisis comparably unharmed. Due to its long track record and its high quality standards, the Pfandbrief has always been very popular with investors. Like other covered bonds, it also benefits from privileged treatment in ECB liquidity operations and in various areas of



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