A culture of social awareness in Europe

A European vision: Room for all and equal opportunities

Everybody should have a roof over their head
Many types of housing in EU – social housing an important one

Social rental housing as a share of total housing stock, EU28 (2017)

(*) Data refers to municipal [public] housing which is only partly used for social purpose
Source: Hypostat 2018 (based on Housing Europe: State of Housing in the EU 2017)
Lending to all sectors

Breakdown of mortgage lending by type of property
Outstanding, 3rd quarter 2018

- Owner occupied: 58%
- Residential renting: 12%
- Social housing: 7%
- Other: 23%

Source: Finance Denmark
The Danish mortgage model – cooperative thinking

The fire of Copenhagen in 1795

Need for affordable finance

Lending through mortgage bond issuance

First mortgage banks organised by creditors

The cooperative movement: Serving the members (borrowers)

Joint liability
The same principles as 220 years ago:

Market structure has changed, but the fundamental idea remains

- Specialized mortgage banks
- Only mortgages funded with covered bonds
- Balance principle
Consumer point of view

- **Interminable** for the lender (borrower protection)
- Interest rate is determined in the **market**
- High level of **transparency**
- **Same conditions** apply for all
- Insurance (income based) **not required**
- Fees and margins are **same for all**

Ensures an equal and accessible system for all
How the model works
The framework: Tight legislation

- Fixed lending limit, 60-80 pct. (loan-to-value/LTV)

- The valuation of the real property and the credit valuation of the borrower must be carried out in compliance with rules laid down by the Danish FSA

- The legislation also covers the practice on responsible lending

- Only funding through the issuance of covered bonds.

- Issuance subjected to a balance principle which eliminates market risk

- Covered bond holders have a preferential status in the event of a bankruptcy
The balance principle

- Cash flow on the loan = cash flow on covered bonds issued to fund the loan
Same conditions for all borrowers

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<th>Households and companies</th>
<th>Mortgage bond</th>
<th>Investors</th>
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<td>2% interest, amortisation and early redemption</td>
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<td>2%, 30 year maturity</td>
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Unique prepayment system

- The balance principle creates the foundation for a unique, market-based prepayment system

- Recognised by the EU Commission\(^1\) and The European Consumer’s Organisation (BEUC)\(^2\)

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Facts about the Danish mortgage system
Housing finance in Denmark is inexpensive and easily accessible

Interest rates on new housing loans to households with interest rate fixation of up to a year

Sources: ECB, Danmarks Nationalbank and own calculations
Note: Based on yearly average of monthly interest rates from Sep. 2017 to Aug. 2018. Differences in maturity, currency and other loan terms are not taken into account
Lending to all parts of the country

Households mortgage debt as share of housing wealth

Source: Statistics Denmark
High level of mobility – also for young people

Estimated average age of young people leaving the parental household (2017)

Source: Eurostat
Many Danes have a mortgage

Share of population living in owner occupied housing with mortgage or loan (2017)

(*) 2016
Source: Eurostat
Social incidents leads to foreclosure

Estimates of incidents which may have led to foreclosure, 2012

- Death of owner or partner: 13%
- Couple break up: 21%
- Unemployment or illness: 27%
- Income lapse or decline: 5%
- Other causes: 34%

Note: A household may have experienced several incidents in the period leading up to foreclosure. Incidents in the chart is prioritized so each household is only counted once. Percentage is thus based on an estimate.

Source: The Knowledge Centre for Housing Economics