



FINANCE  
DENMARK

# The Danish Mortgage System

## A brief history

# The fire of Copenhagen in 1795



- The fire started at the centrally located naval base, "Holmen"
- An officer on posted at the gate refused admision to the fire brigade
- $\frac{1}{4}$  of Copenhagen burned

# The first mortgage bank



- Kreditkassen for Husejerne i Kjøbenhavn (1797)
- Only in Copenhagen
- Lending through mortgage bond issuance
- Organised by creditors

# The rise of the Danish mortgage system



- The Danish Constitution of 1849
  - access to form unions
- Mortgage unions 1849 - WWII
  - The cooperative movement
  - serving the members (borrowers)
  - joint liability
- Mortgage funds after WWII
  - serving all borrowers
  - no distribution of profits to borrowers
  - build reserves and retain ability to lend

**Why does history matter?**

**And how does the system work today?**

# Principles from the unification period



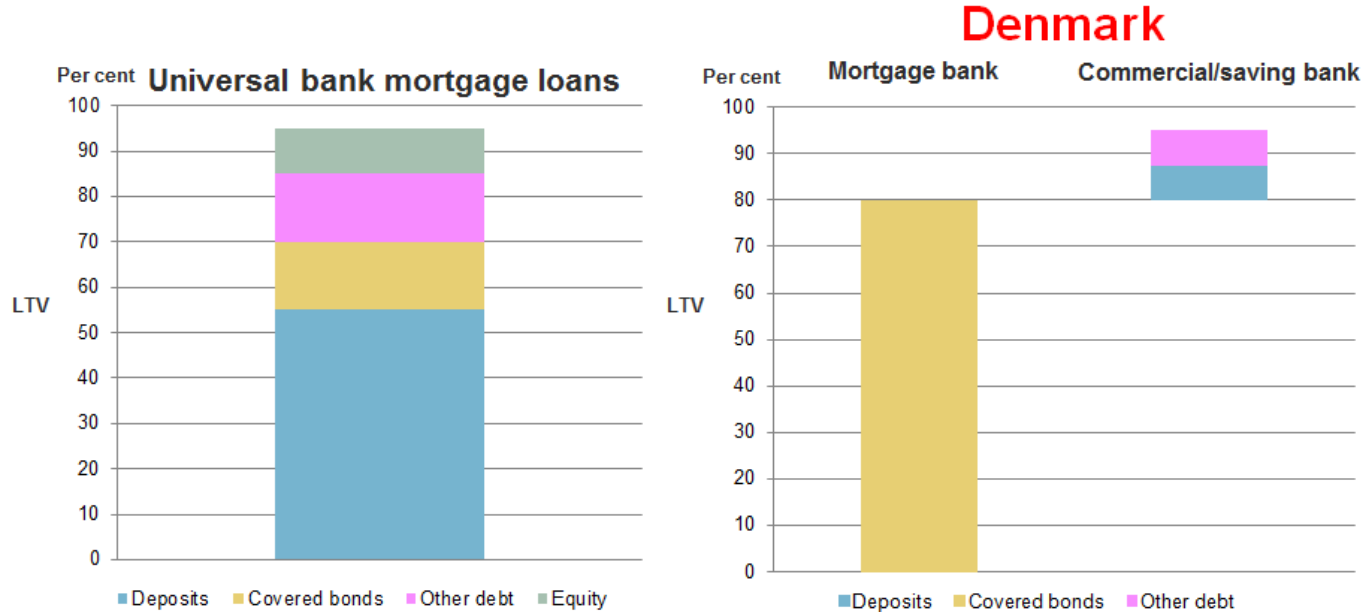
- Lending against the "brick" value (lenders access to collateral)
- Joint liability (prudent lending)
- Bond issuance (access to funding) including the balancing principle
- Interminable for the lender (borrower protection)

# Tight legislation

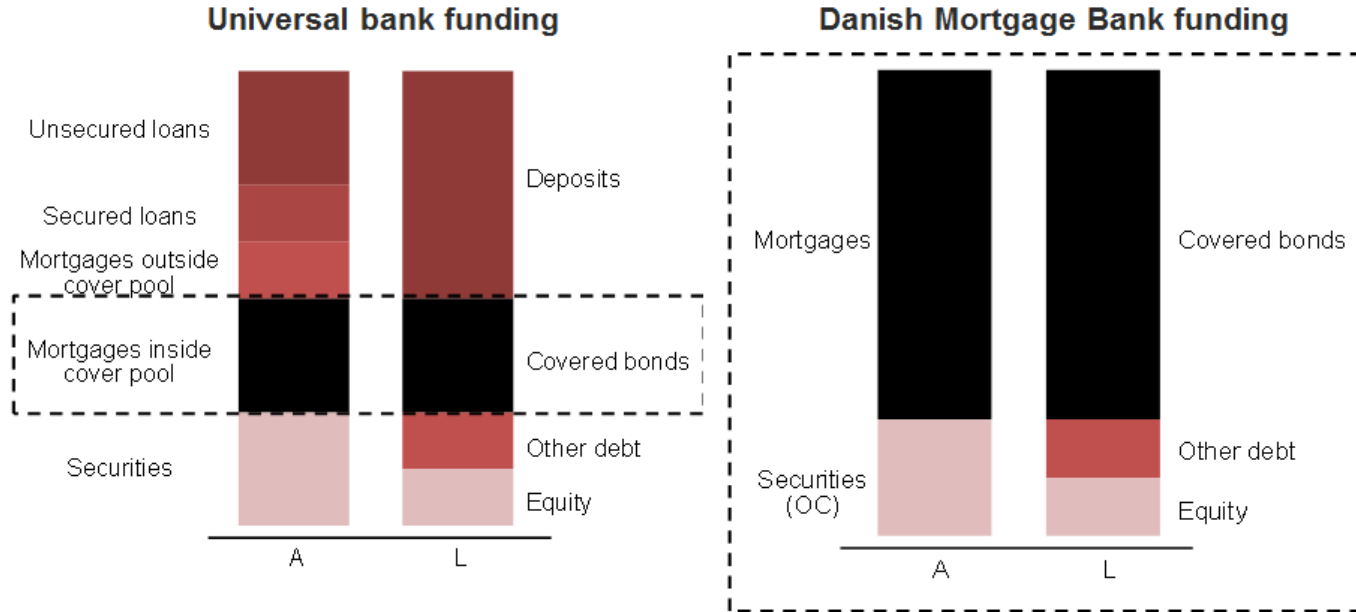
- Fixed lending limit , 60-80 pct. (**loan-to-value/LTV**)
- The **valuation** of the real property and the **credit valuation** of the borrower must be carried out in compliance with rules laid down by the Danish FSA
- Only funding through the issuance of **covered bonds**.
- Issuance subjected to a **balance principle** which eliminates market risk
- Covered bond holders have a **preferential status** in the event of a bankruptcy
- The legislation also covers the practice on **responsible lending**



# Funding of mortgage loans today

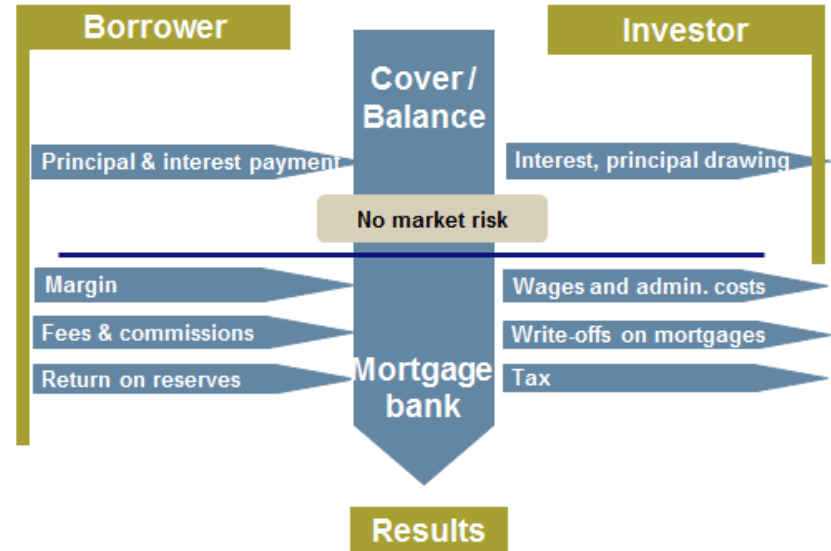


# The Danish mortgage model



# The match funding principle

- Cash flow on the loan= cash flow on covered bonds issued to fund the loan
- Tap issuance
- Price transparency
- Product transparency and standardisation
- Originate to hold



# What does a market based system imply?

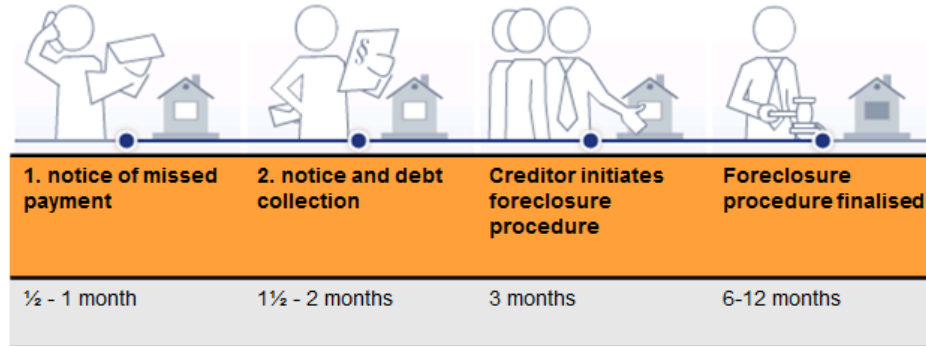


- Prices are transparent to all stakeholders
- Sustained investor confidence and demand
- Borrowers can see loan level prices
- The balance principle creates the foundation for a unique, market-based prepayment system
- Recognised by the EU Commission<sup>1</sup> and The European Consumer's Organisation (BEUC)<sup>2</sup>

1) White Paper on the Integration of EU Mortgage Credit Markets (Annex III, SEC(2007) 1634/4)  
2) Mortgage Credit – Report of the Mortgage Funding Expert Group – BEUC Comments (2007)

# Effective foreclosure system

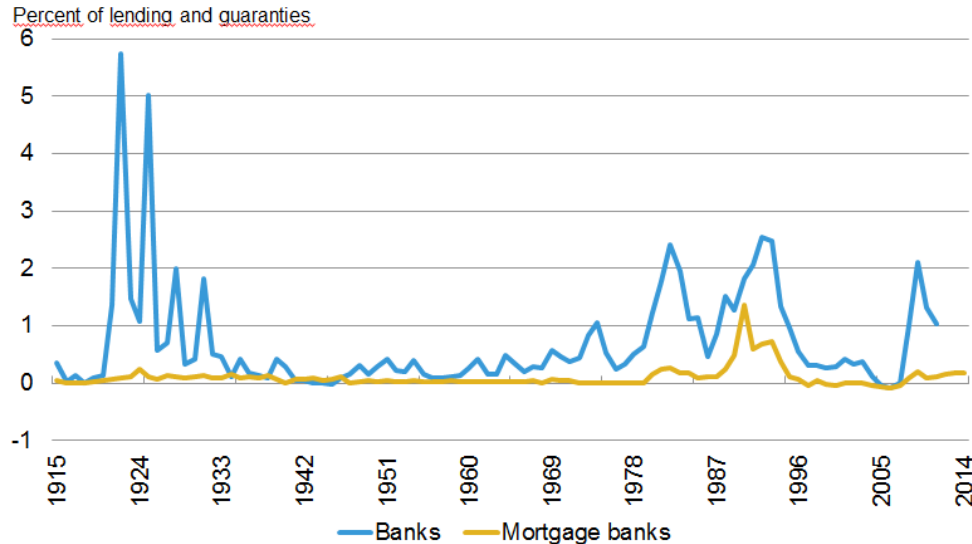
- "Flexicurity" of the Danish mortgage market – supported by the Danish security model (public safety net)
- Regulated and swift foreclosure procedures guarantee access to collateral
- Average time from first arrear to finalised foreclosure is 6-12 months



Source:  
Nykredit

# Households have proved resilient when faced with price adjustments

Household impairments for mortgage banks and commercial banks



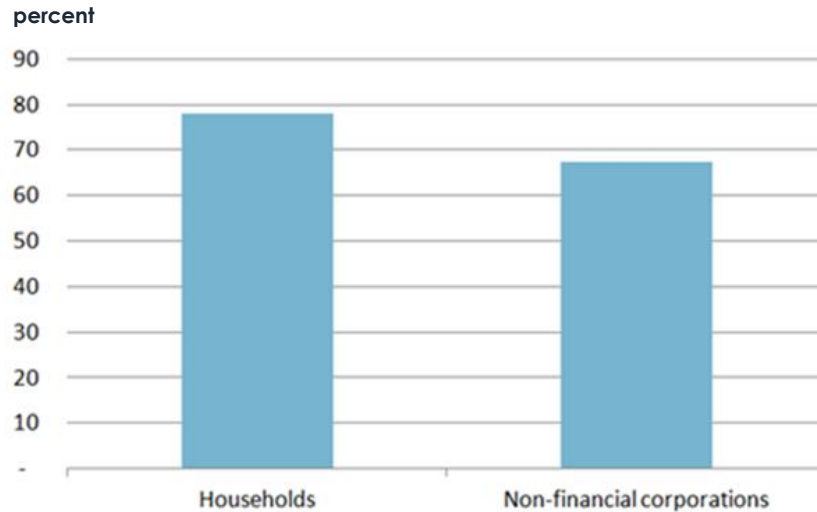
Sources: Danmarks Nationalbank and the Danish FSA.

Note: The principles for impairments were changed in 1990 to reflect likely losses rather than just actual losses.

# Stability and magnitude of the Danish Mortgage model

# The Danish mortgage system is essential for Denmark

Mortgage banks' shares of total outstanding loans from banks and mortgage banks



Source: Danmarks Nationalbank

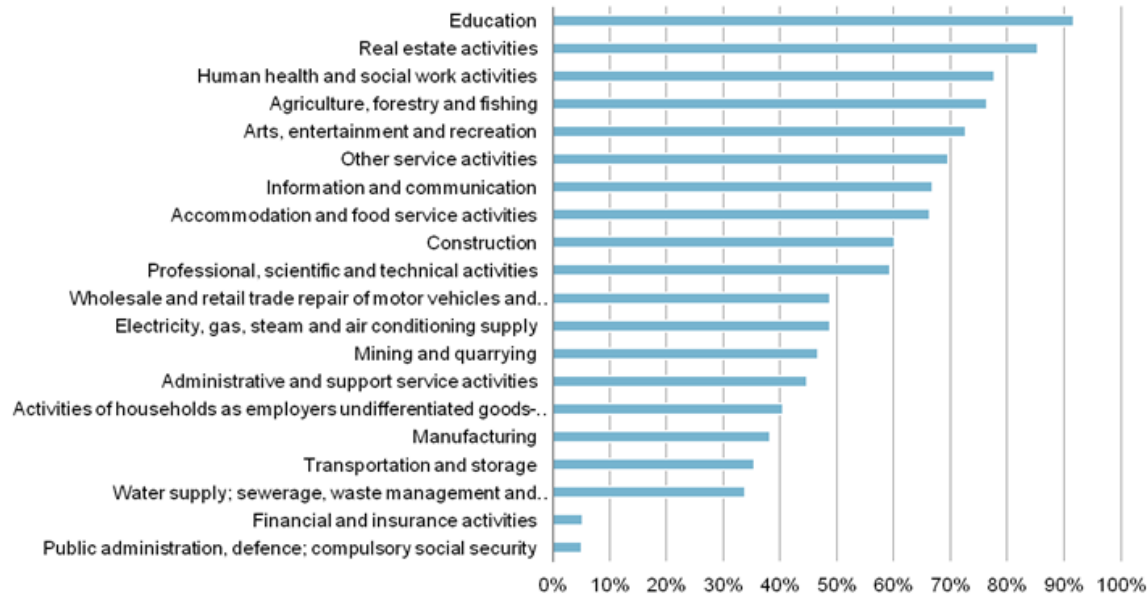


**Mortgage loans correspond to about 130 percent of GDP**



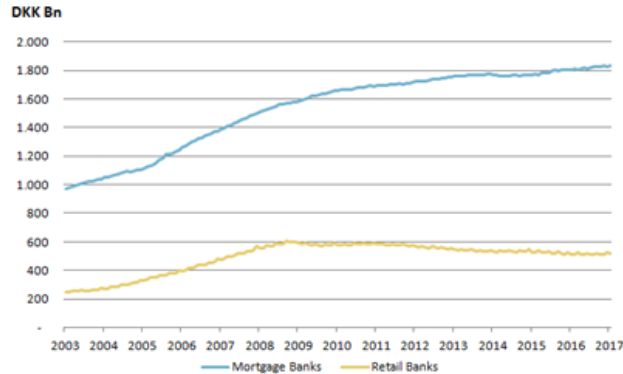
# Many industries are benefitting from funding from mortgage banks

Mortgage banks' shares of the total outstanding lending from banks and mortgage banks



Source: Danmarks Nationalbank

# Mortgage lending activity proved resilient during the last crisis

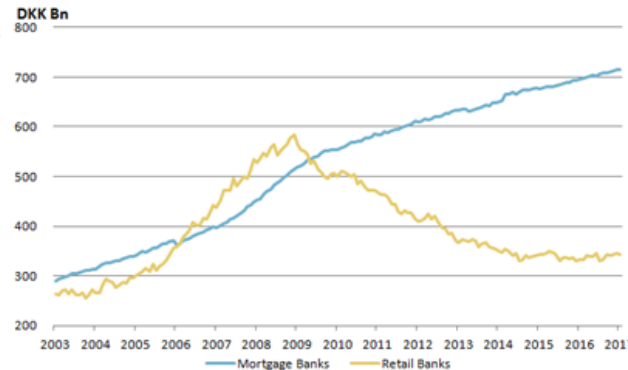


## ← Lending to Households

From September 2008 to January 2017 lending from mortgage banks increased by DKK 266 billion. Lending from banks decreased by 83 DKK billion.

## Lending to Businesses →

From September 2008 to January 2017 lending from mortgage banks increased by DKK 218 billion. Lending from banks decreased by DKK 214 billion.



Source: [Danmark Nationalbank](#)

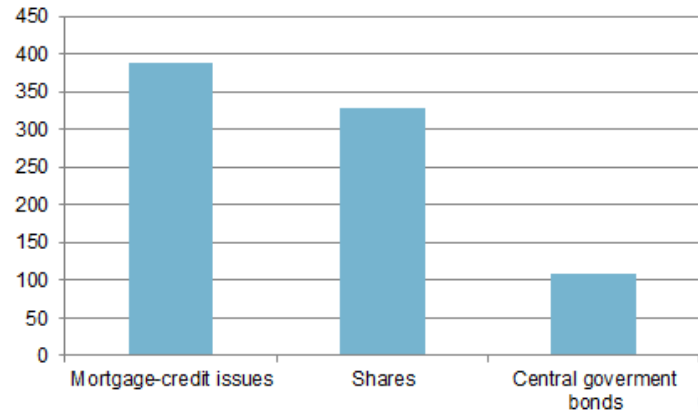
# The Danish covered bond market

## And the investors

# The Danish covered bond market is big and attracts many foreign investors

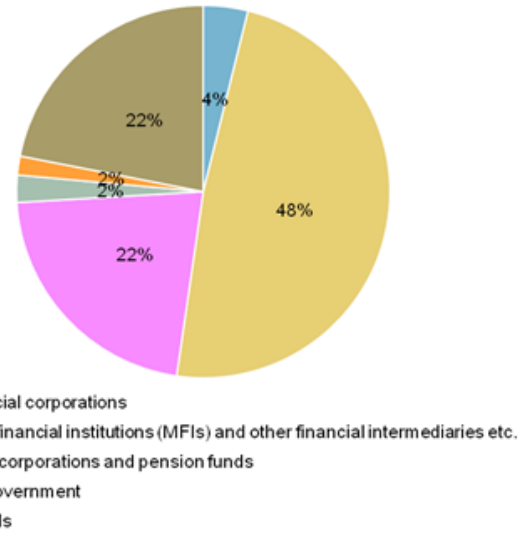
**Outstanding market value**

EUR bn.



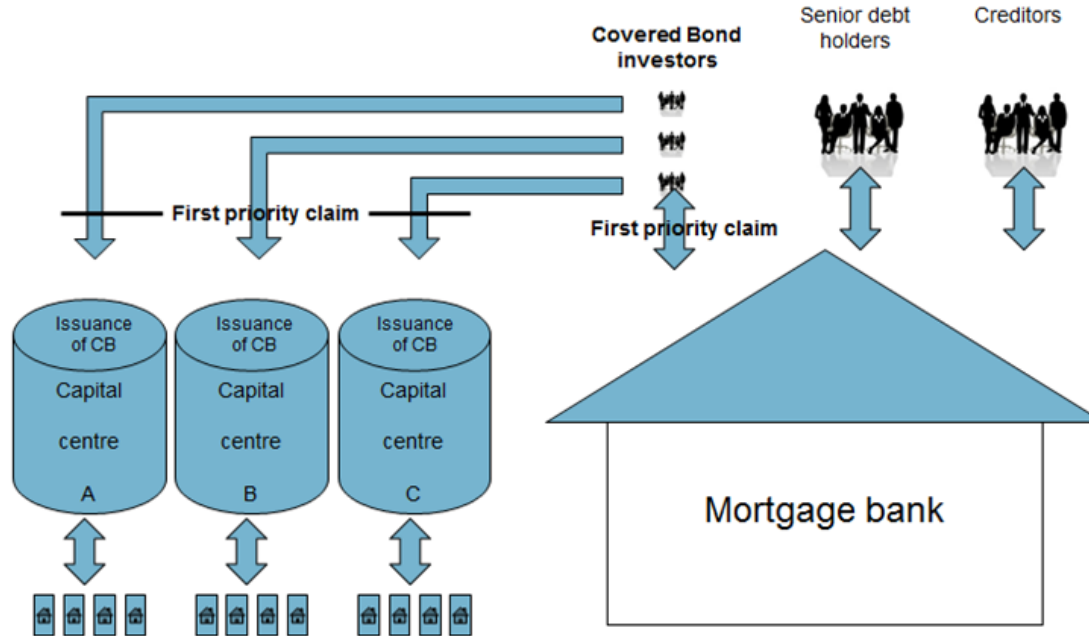
Source: Danmarks Nationalbank

**Owner-distribution of Danish covered bonds**



Source: Danmarks Nationalbank

# Preferential status



# Borrowers, products and prices

# Same conditions for all borrowers

Households and companies

Mortgage bond

Investors



2% interest,  
amortisation  
and early  
redemption



2% interest,  
amortisation  
and early  
redemption



2% interest,  
amortisation  
and early  
redemption



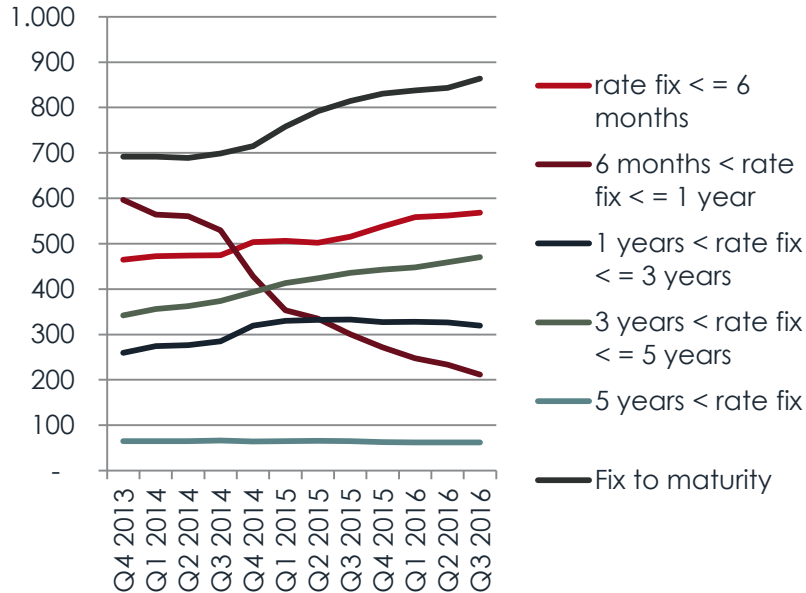
2% interest,  
amortisation  
and early  
redemption



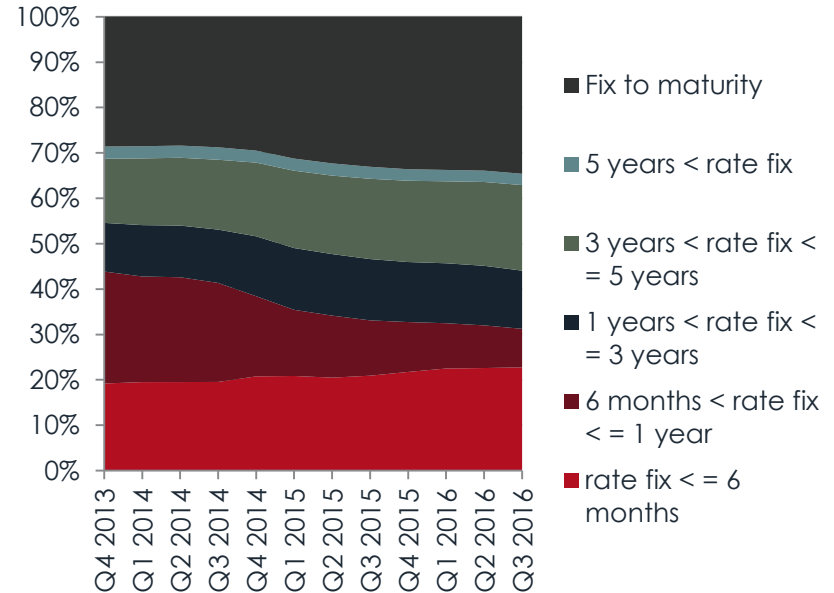
2% 2050

# Interest rate fixings to households and business

## Original rate fixation, DKKbn

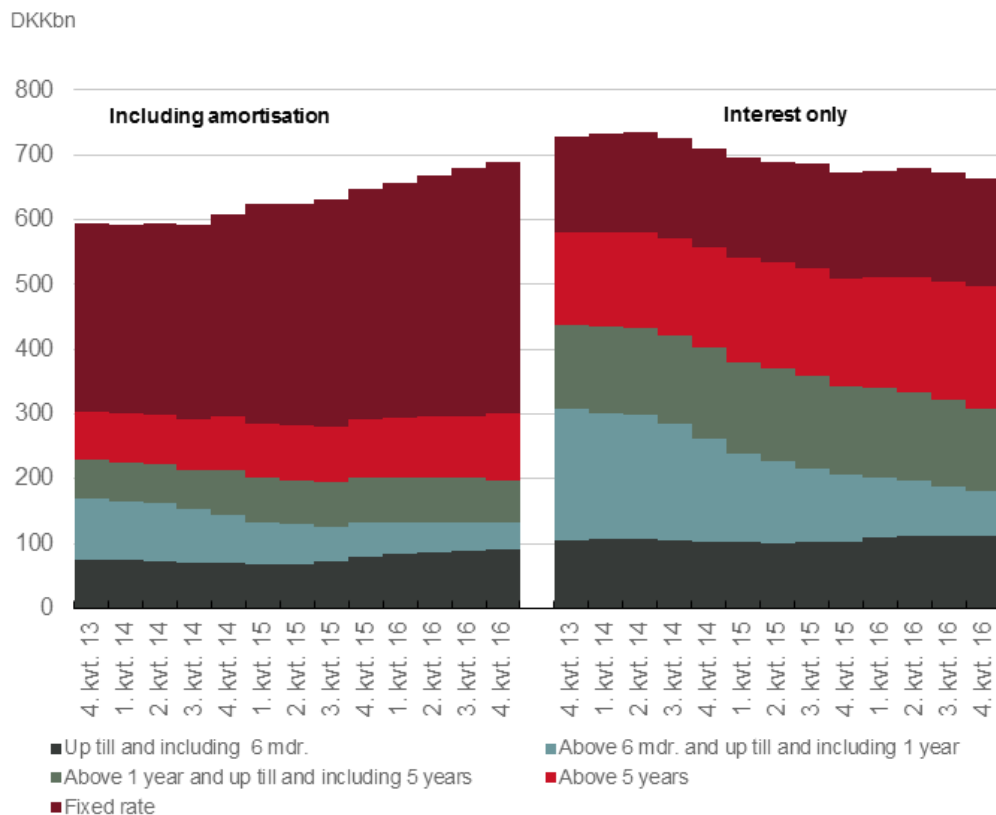


## Original rate fixation



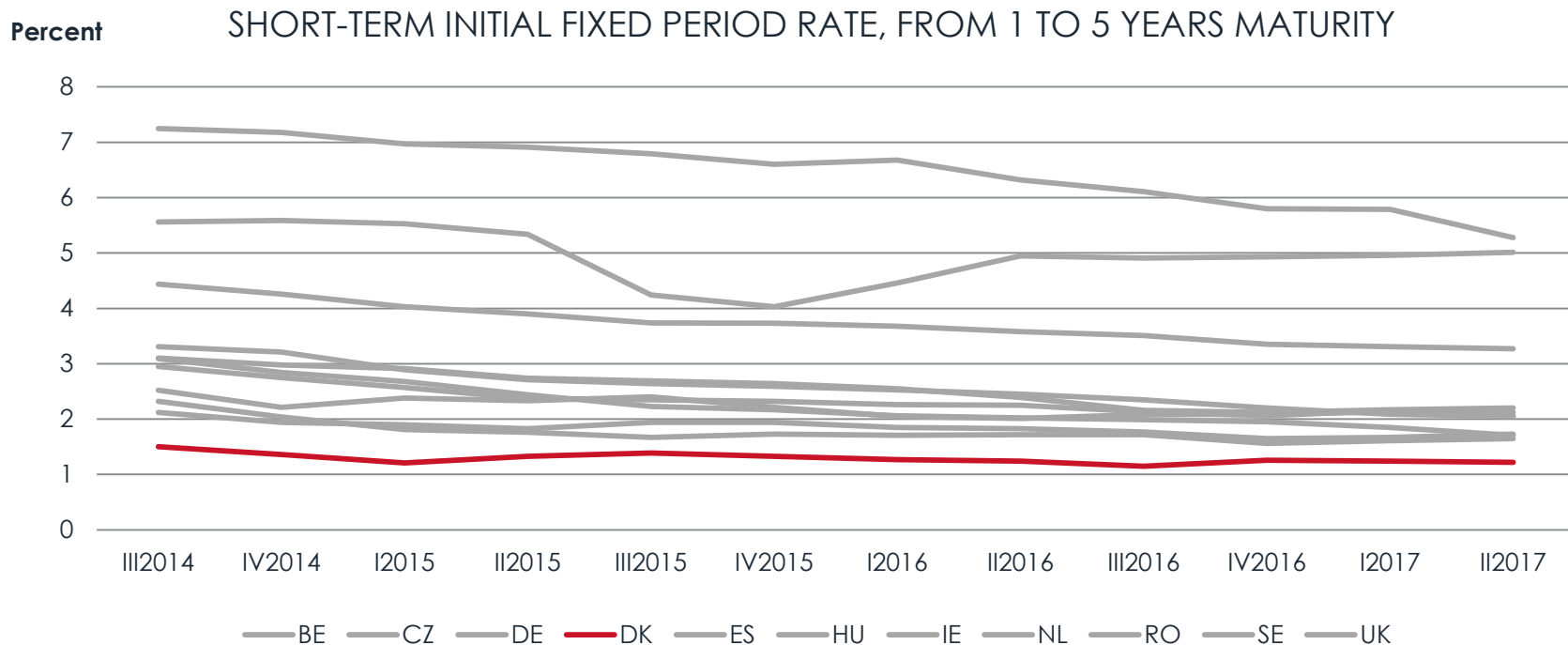


# Outstanding lending with or without amortisation



Source: Danmark Nationalbank

# Effective interest rate on danish mortgage loans



Note: Effective rates include margin  
 Source: European Mortgage Federation



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