



**FINANCE
DENMARK**

The traditional Danish mortgage model

Mortgage financing in Denmark is transparent and inexpensive. Through the Danish mortgage banks, borrowers obtain financing at market prices. Mortgage rates and prepayment prices are directly reflected in the price of the mortgage bonds funding the loan. Prices on loan types differ according to risk characteristics, but all homeowners, inconsiderate of income level, pay the same mortgage rate and the same administration fee on identical loan types.

The Danish mortgage system is unique, as it is based on an important general principle called the match-funding principle. Under this principle, there is a direct match between the loan which a homeowner raises with a mortgage bank and the bonds which a mortgage bank issues to fund a loan. Borrowers know which bonds fund their loans, and the bonds are listed on a stock exchange. Bond prices are quoted daily, for instance in newspaper price lists. There is transparency in connection with new loans as well as refinancing and prepayment.

The system incorporates transparent and flexible prepayment access. Borrowers may redeem their mortgage loans at any time without negotiating the price – prepayment may always take place at current market prices. This unique principle is found nowhere else in the world.

A well-established financial infrastructure also means that borrowers can switch mortgage provider without having to contact the incumbent mortgage bank – a feature that could otherwise be a hindrance to some.

Mortgage financing is available to all dwelling types and hence has an impact on the lives of all Danes. Also commercial properties are financed through the Danish mortgage system extending benefits also to large as well as smaller businesses.

While borrowers benefit from a transparency and efficiency, the system also contributes to the stability of the Danish economy. The system has proven to be extremely crisis resistant. It contributes to securing financial stability, because the match funding principle to a greater extent eliminates risk in the financial sector.

All in all, the Danish mortgage system is an example of an entire system incorporating financial inclusion on various levels.

Memo

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