



FINANCE
DENMARK

A culture of social awareness in Europe



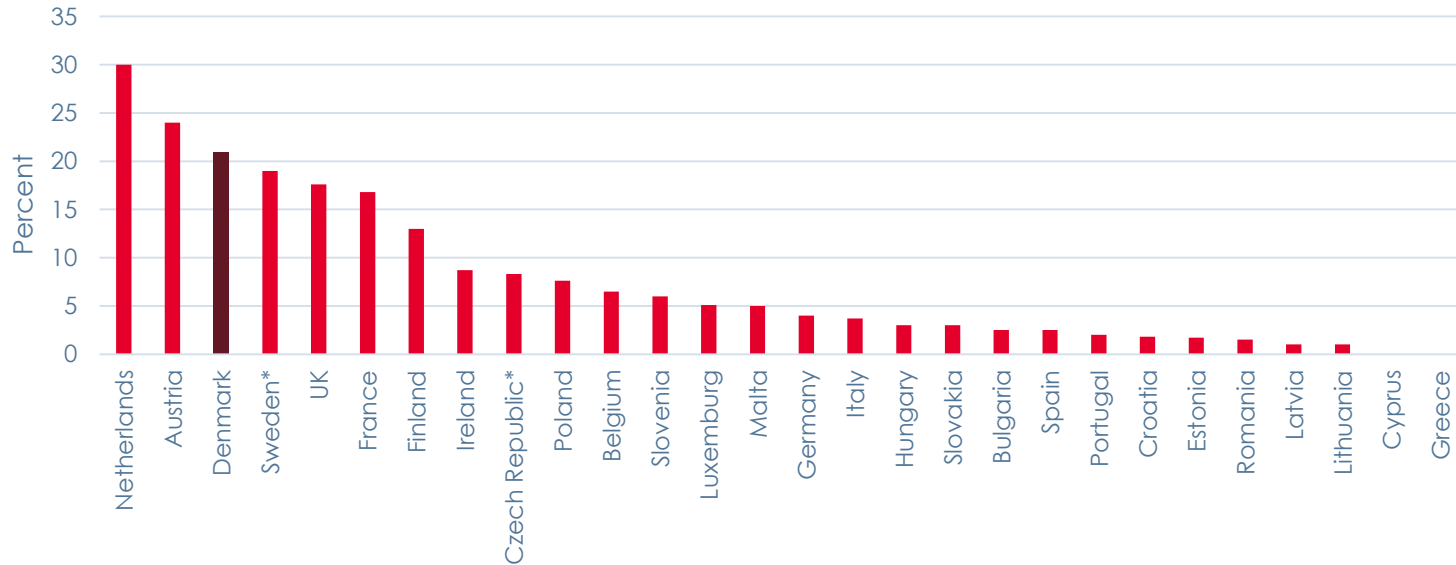
A European vision: Room for all and equal opportunities

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)

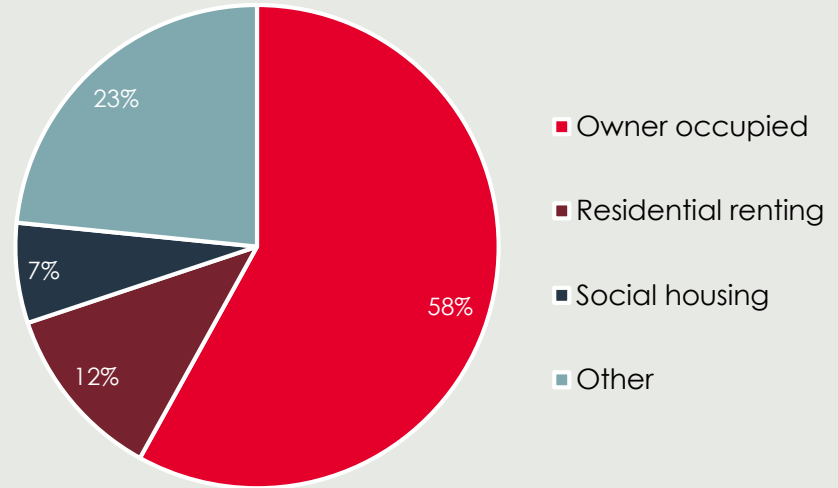


(*) Data refers to municipal (public) housing which is only partly used for social purpose
Source: Hypostat 2018 (based on Housing Europe: State of Housing in the EU 2017)

Lending to all sectors

Breakdown of mortgage lending by type of property

Outstanding, 3rd quarter 2018



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



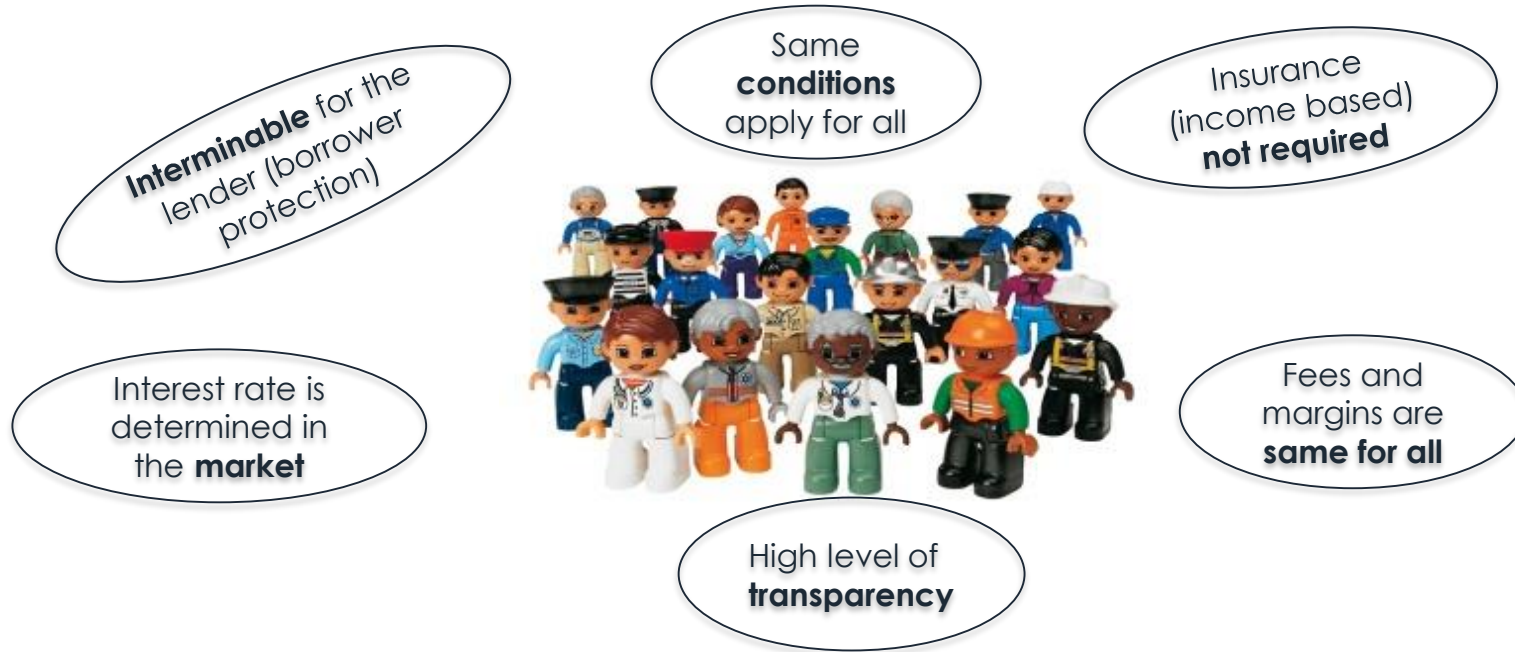
**The same principles
as 220 years ago:**

**Market structure has
changed, but the
fundamental idea
remains**



- Specialized mortgage banks
- Only mortgages funded with covered bonds
- Balance principle

Consumer point of view



Ensures an equal and accessible system for all



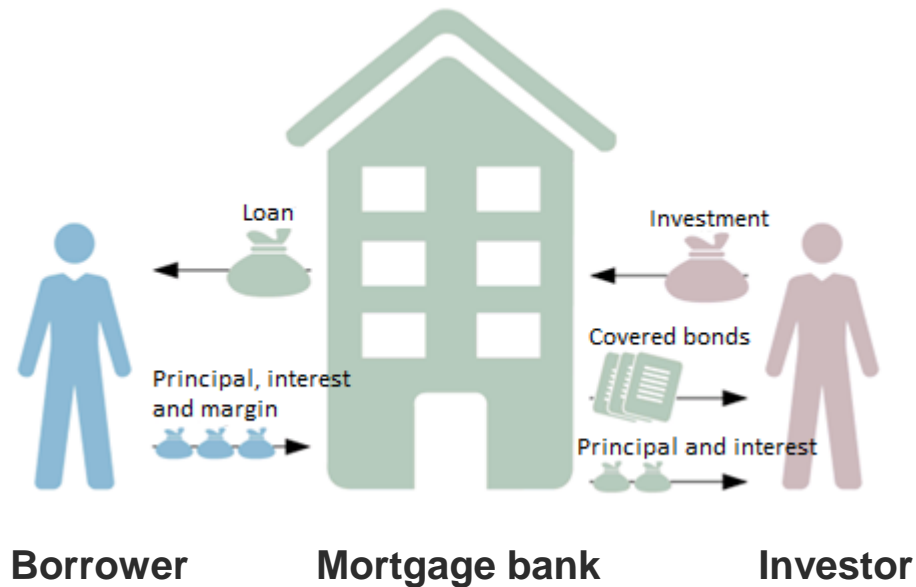
How the model works

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



2% interest,
amortisation
and early
redemption



2% interest,
amortisation
and early
redemption



2% interest,
amortisation
and early
redemption



2% interest,
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2%, 30 year maturity



Unique prepayment system

- The balance principle creates the foundation for a unique, market-based prepayment system
- Recognised by the EU Commission¹ and The European Consumer's Organisation (BEUC)²

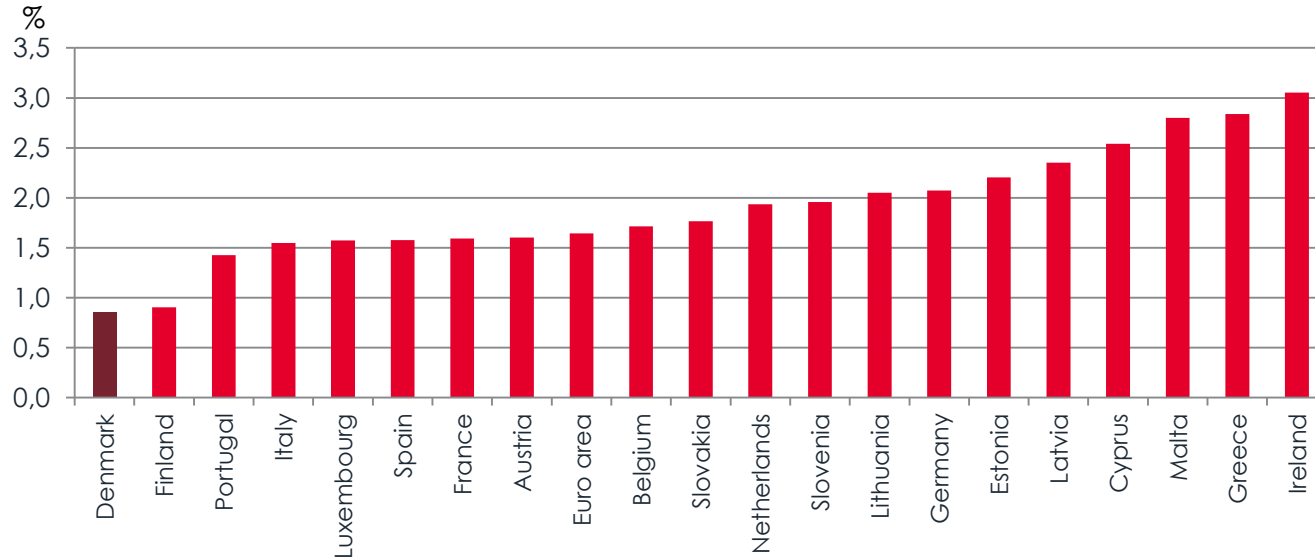
1) White Paper on the Integration of EU Mortgage Credit Markets (Annex III, SEC(2007) 1634/4)
2) Mortgage Credit – Report of the Mortgage Funding Expert Group – BEUC Comments (2007)



Facts about the Danish mortgage system

Housing finance in Denmark is inexpensive and easily accessible

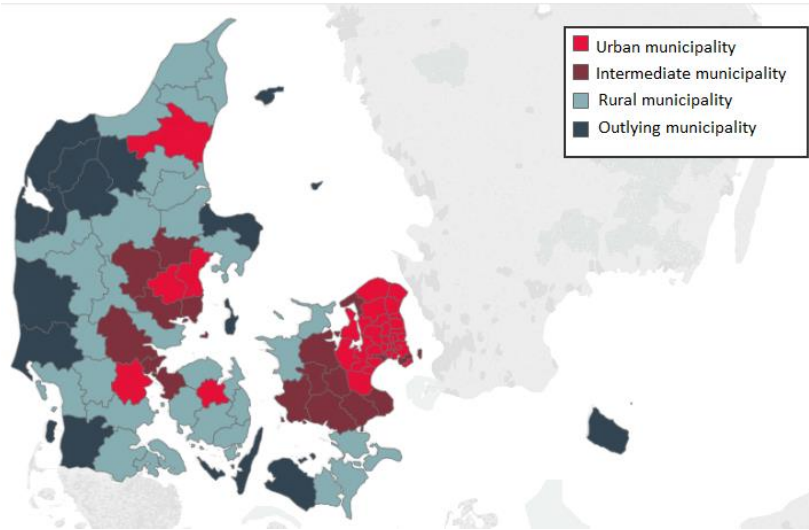
Interest rates on new housing loans to households with interest rate fixation of up to a year



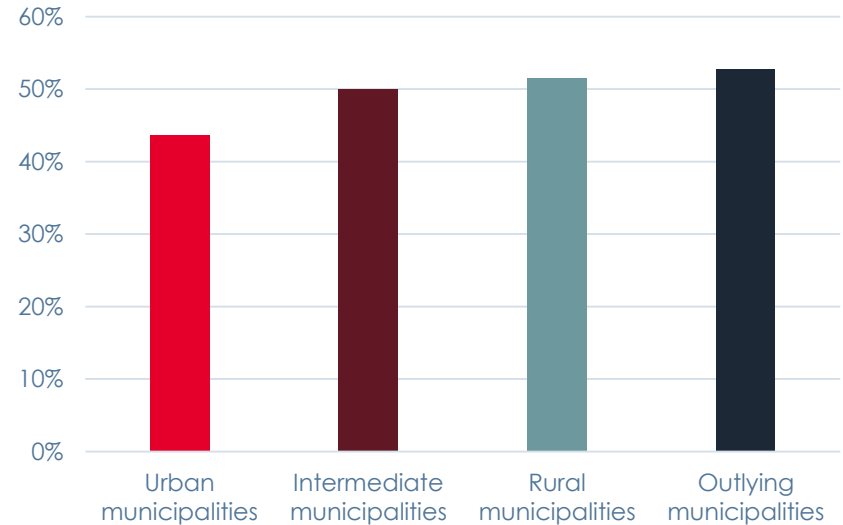
Sources: ECB, Danmarks Nationalbank and own calculations

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



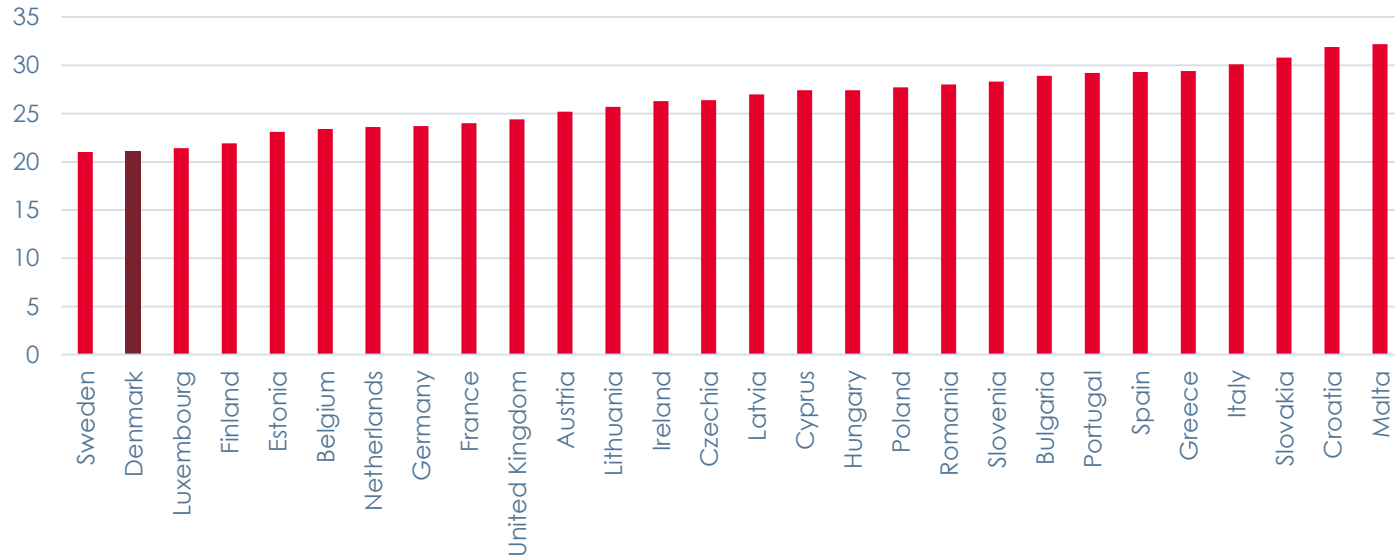
Households mortgage debt as share of housing wealth



Source: Statistics Denmark

High level of mobility – also for young people

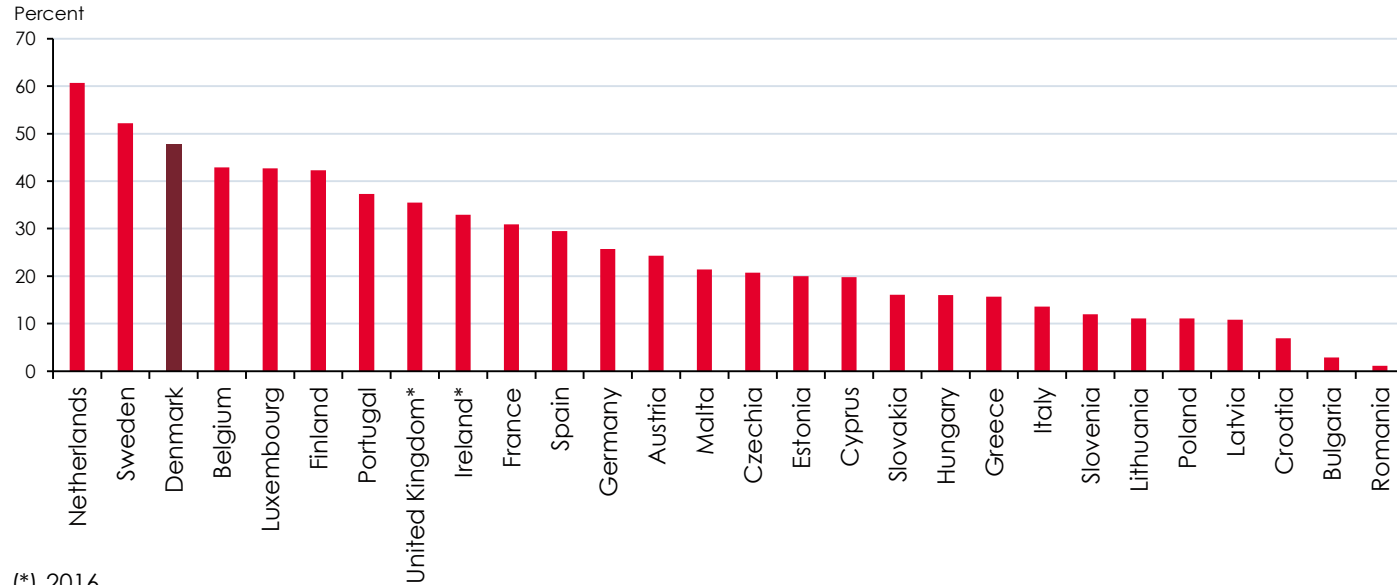
Estimated average age of young people leaving the parental household (2017)



Source: Eurostat

Many Danes have a mortgage

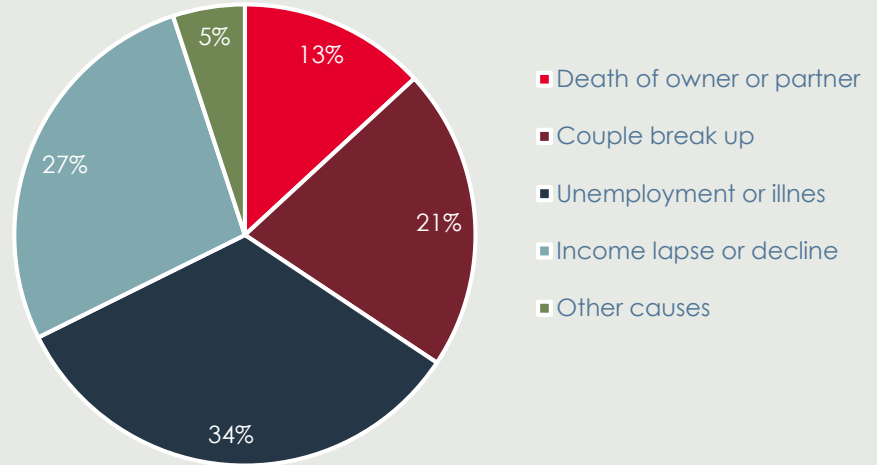
Share of population living in owner occupied housing with mortgage or loan (2017)



(*) 2016
Source: Eurostat

Social incidents leads to foreclosure

Estimates of incidents which may have led to foreclosure, 2012



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 one. Percentage is thus based on a estimate
Source: The Knowledge Centre for Housing Economics