

# The Danish mortgage bank system for housing finance

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- Based on solid legal system
- Broad choice of loan products
- Freedom of manoeuvre for debtor
- Relatively low costs
- The bond market

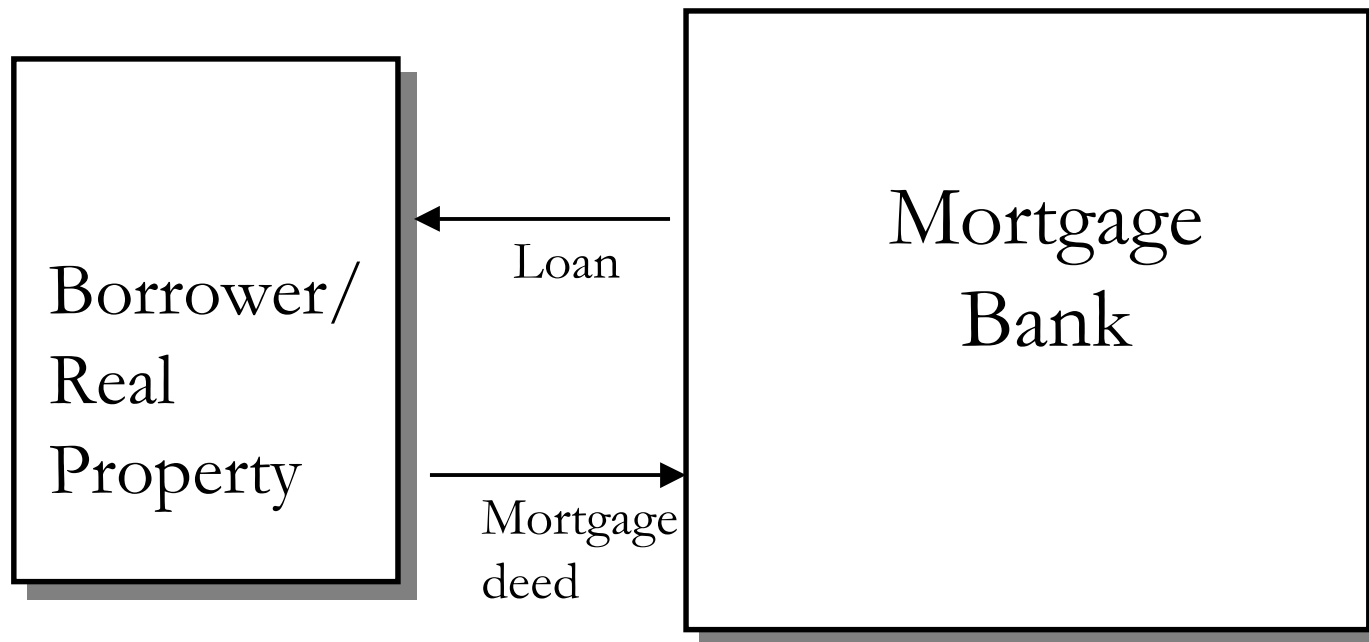
# The procedure

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- The borrower issues a private mortgage deed to the bank (allowing forced take over if not serviced)
- This private mortgage deed is registered in the public register of ownership and rights of all real estate
- The deed is then handed in to the mortgage bank
- The bank pays out the loan

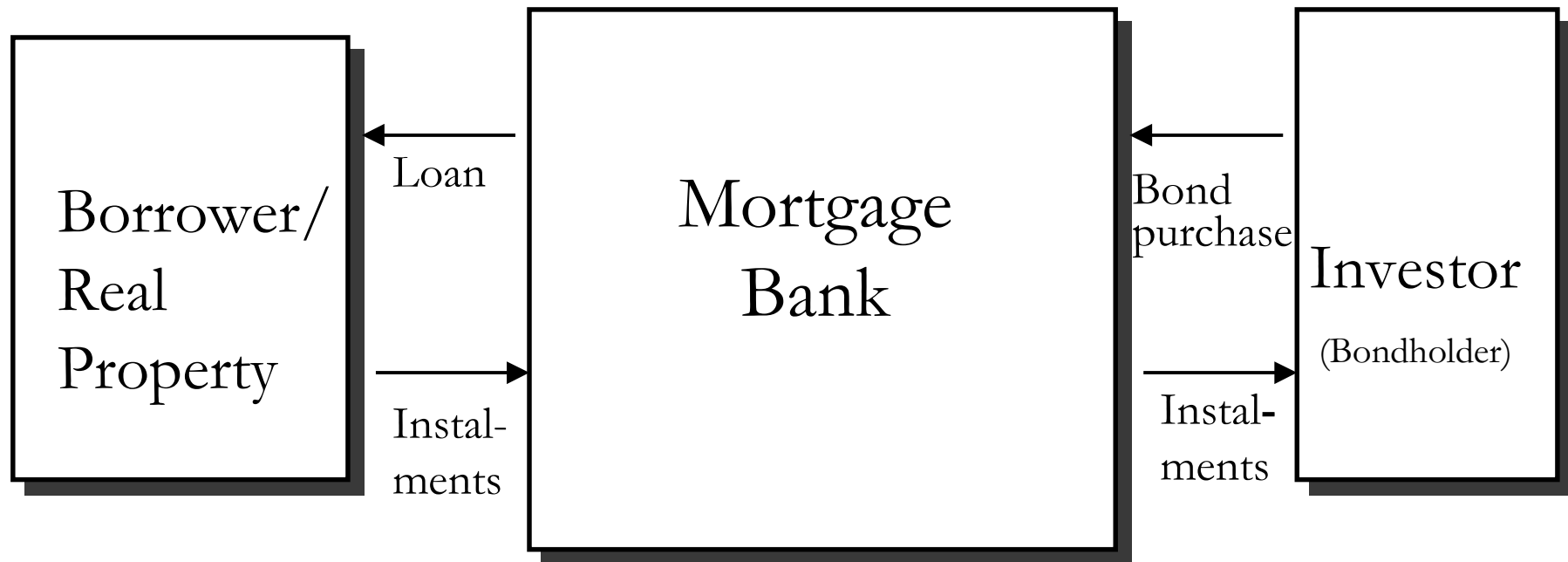
# The mortgage banking system (1)

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# The mortgage banking system (2)

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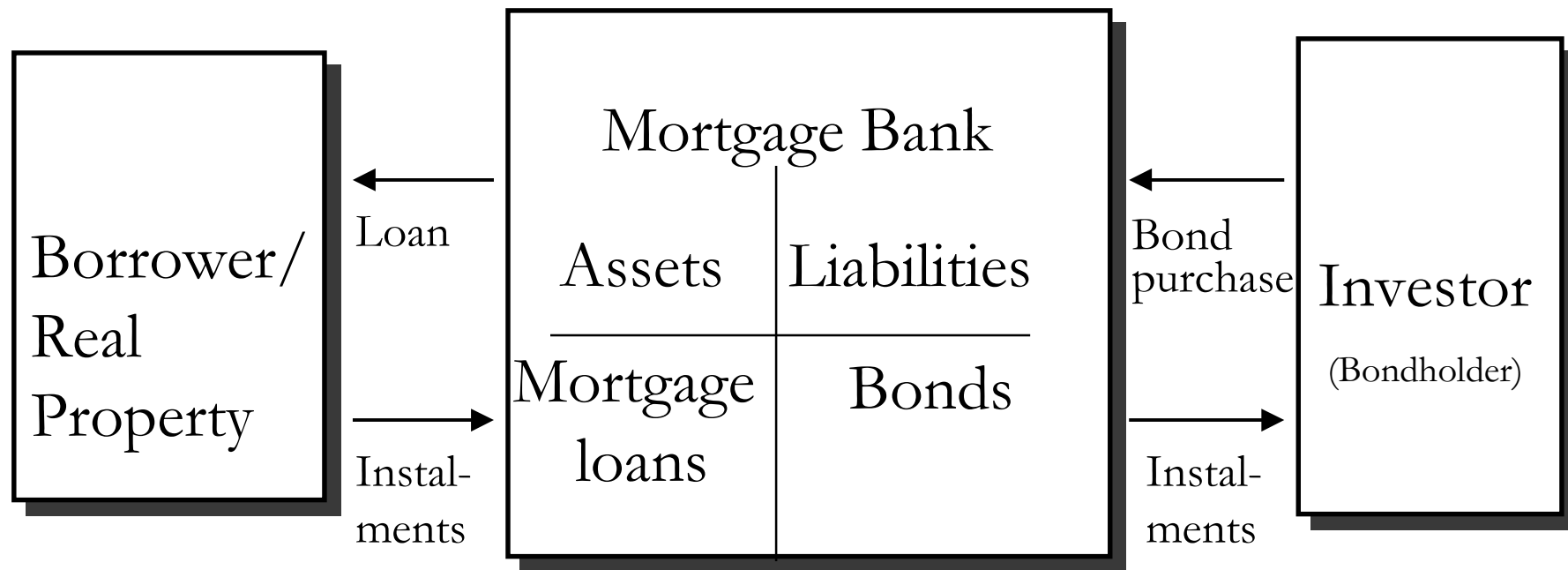


# Specific regulations

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- Loan-to-value (LTV) limits
- Valuation rules
- The balanced book

# The Balanced Book



Same interest rate  
Same duration  
Same currency

# Loan products

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- Traditional 30-year fixed rate loan. Constant annuity. Callable
- Likewise 10-15 or 20 year loans. 4 or 5 (or 6) per cent interest rate
- Adjustable rate loans. No call feature. Interest fixed for 1 to 10 years
- Above loans can be combined with postponed repayment of capital for up to 10 years
- Loans in DKK or in EUR

# New housing loans

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| <b>Per cent</b>                           | <b>1995</b> | <b>1999</b> | <b>2003</b> | <b>2004 (1st half)</b> |
|---|-------------|-------------|-------------|------------------------|
| Fixed rate loans                          | 93          | 97          | 59          | 37                     |
| Adjustable rate loans                     | -           | -           | 41          | 63                     |
| Index loans                               | 7           | 3           | -           | -                      |
| <hr/>                                     |             |             |             |                        |
| Per cent of total in Euro loans           | -           | 1           | 1           | 1                      |
| Loans with postponed repayment of capital | -           | -           | (11)        | 80                     |



# Freedom of manoeuvre for debtor (1)

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- Penalty free prepayment at par (if bond price above par)
- Buy back bonds in secondary market and deliver them back to the mortgage bank (if price of bonds below par)
- Postpone repayment of capital
- No "due on sale" clause. The buyer of a real estate can take over existing debt from seller

# Freedom of manoeuvre for debtor (2)

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- When interest level is falling: downward conversion to lower coupon. Ex.: Existing loan has coupon of 7%. Market rate falls to 5%, and pushes price of existing loan up to 103. But debtor can repay at par, and take out new 5% loan
- When interest level is rising: upward conversion to higher coupon. Ex.: The market rate goes back up to 7%, and the bonds of the new 5% loan can now be bought in the market at 90. The purchase of the bonds is financed by new 7% loan, which is 10% smaller. The remaining debt is reduced by 10%

# Freedom of manoeuvre for debtor (3)

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- Sideways conversions from 30 (or 20 or 15 or 10) year fixed loans to 1-, 3-, or 5- year loans with adjustable rate, or vice versa
- Conversion to loan with postponed repayment of capital

In 2003 400,000 house owners (30 per cent of total) changed their mortgage loans.

# The cost structure

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- Standardised legal procedure and standardised products
- Streamlined handling of new and existing loans
  - Integrated procedure in 8 mortgage banks (5 for housing loans)
  - 2 millions loans, totalling EUR 200 billion, handled by 4,000 persons
- Low cost of funding
- Low loan losses
- Total costs about 0.5% (margin between rate paid by mortgage debtor and rate received by bondholder)

# The bond market

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- Standardised bonds
- Large interchangeable issues (presently 30-year issues of EUR 30 billion)
- Issue on tap
- Mortgage banks active in securing liquid secondary bond market
- Outstanding mortgage bonds equal 120% of GDP