

## **Summary**

*The total mortgage debt of Danish households in owner-occupied homes and second homes represent about 1,364 billion Danish Kroner, equivalent to approx. 78 per cent of Danish GDP. The total mortgage debt is primarily concentrated among households with the highest incomes. One third of the total mortgage debt is related to the 10 per cent of households with the highest incomes. 90 per cent of the total mortgage debt is related to the half of households with the highest incomes.*

*Floating-rate loans and interest-only loans are used by all types of households, regardless of income. However, households with the highest incomes and households with the lowest incomes are more likely to choose loans with variable interest rates. However, one should be aware that only a small proportion - approx. 1 per cent - of the total mortgage debt has been issued to the 10 per cent of households with the lowest incomes.*

*95 per cent of the households spend less than half of their after-tax income on debt servicing (at the interest rate applicable at the end of 2010). The approx. 5 per cent of households spending more than half of the income on debt servicing have a combined mortgage debt of around 114 billion Danish Kroner. This is equivalent to 9 per cent of total loans for residential properties and holiday homes.*

*A small increase in interest rates of 1 percentage point - compared to the level at the end of 2010 - implies that the proportion of households spending more than half of the income on debt servicing will increase from 5 to 6 per cent. A more significant increase in interest rates by 5 percentage points, viewed in isolation, implies that the proportion of households spending more than half of the income on debt servicing will increase to 12 per cent. This group of households has a total mortgage debt of around 280 billion Danish Kroner equivalent to 21 per cent of total mortgage loans for residential properties and holiday homes.*

*Of the approx. 5 per cent of households spending over half of the income on debt servicing 40 per cent have interest-only mortgages on the entire loan*

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*while approx. half have variable interest rate on the entire loan. Of the households spending half or more of the income on debt servicing around one quarter - or about 14,000 households - have both variable-rate and interest-only mortgage on the entire loan. These households are particularly sensitive to increases in interest rates. However, it should be noted that these households account for only approx. 3 per cent of the total mortgage debt.*

*Interest-only mortgage loans were introduced in October 2003. Households who took out an interest-only mortgage in 2003 and 2004 have to start installment payments by 2013 and 2014 respectively.*

*Expiry of the spell without installment payments does not constitute a risk for the stability of the housing market in the first coming years. In 2013 about 6.000 out of a total of 1.1 million households with a mortgage will have to start making installment payments. In 2014 the number is about 30.000 households. As the current house price level is still nominally above the levels in 2003 and 2004 by 30 percent and 20 percent respectively, the main part of households have the possibility to renew their interest-only mortgage within the allowed LTV cap of 80 percent.*

*The Danish Government has taken initiatives to make sure that home buyers, whose financial situation is not sufficiently sound shall not get issued the riskiest loans. From 1 May 2013, the Danish Government introduces new rules meaning banks and mortgage credit institutions can solely offer mortgages with variable interest rates and/or interest-only to people purchasing homes who are able to finance their house with a fixed-rate mortgage with amortization. The credit rating of the customer is performed according to the usual credit policy of the institution in question.*

*At the same time, the mortgage sector has taken a number of initiatives pulling in the direction of a more stabile housing finance market in the long term. Thus, within parts of the sector, so-called two-layer collateral has been carried out where the portion of the property value exceeding 60-80 per cent is not eligible for variable interest rate loans with an interest rate*

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*adjustment period of less than five years. In addition to this, there is no option to choose interest-only loans on the outer part of the mortgage.*

*Furthermore, some banks and mortgage credit institutions have introduced a.o. differentiated contribution rates depending on the type of loan so that fixed-rate loans are offered at the lowest rates of contribution while riskier loans are offered at higher rates. The Danish Government will closely monitor developments in banks' and mortgage credit institutions' contribution rates.*