In the period from 2013 an increasing number of households must begin repayment of their mortgage debt or convert their existing interest-only loan to a new interest-only loan. A conversion of the entire mortgage debt into a new interest-only loan requires, that the total mortgage debt represents a maximum of 80 percent or less of the property value. The purpose of this analysis is to examine the group of households whose interest-only expire either on all or part of their mortgage loans, and having a mortgage debt representing more than 80 percent of their property value - i.e. the group of households, who cannot convert their entire mortgage debt into a new interest-only loan.

The results indicate that the vast majority of this group of households will be able to begin repayment of their mortgage debt. Overall, in the period from 2013 to 2019, 80 percent of these households will continue to spend less than half their after-tax income on servicing their total mortgage debt even if repayment begins.

In 2013, there will be about 300 households who are going to spend more than half their disposable income on servicing their total mortgage debt if they start paying installments on their mortgages. In 2019, assuming that property prices remain unchanged, the number of households increases with almost 7,000. These 7,000 households represent a total mortgage debt of approximately 15 billion DKK equivalent to 1.1 percent of mortgage debt in owner-occupied homes and holiday homes.

If in the period up to 2019 property prices were to increase by for example 1.5 percent per year, i.e. approximately in line with consumer prices, in 2019 there will be about 3,500 instead of 7,000 households, with a ratio of loan-to-value higher than 80 percent. These 3,500 households whose interest-only expire must spend half or more of their after-tax income on servicing their total mortgage debt, if they start paying installments.

In assessing the expiry of interest-only it must also be taken into account that a family who that took up an interest-only loan with one-year adjustable-rate had an interest rate of 4 percent. Today, the family will have an interest rate of 0.4 percent. With a mortgage of 1.2 million DKK, for example, it means that the annual interest payment (including contribution fees and after tax) has dropped from 36,000 DKK in 2006 to approximately 15,000 DKK in 2013. Compared to the original starting point this has given the family an annual interest savings of about 21,000 DKK.

All in all, the expiry of the 10-year period with no installment payments on interest-only loans is considered manageable for the property market.

However, the share of interest-only loans among Danish households are currently 56 percent of the total private mortgage debt and has reached a level too high. There is a need to reduce this level in the coming years.

The Danish government has taken the initiative to prevent property buyers whose financial position is not sufficiently robust from being issued the most risky loans. As of 1 May 2013 the Danish government introduces rules meaning that financial and mortgage institutions can only offer mortgages with interest-only and / or floating rate for property buyers who are able to finance their properties through a mortgage loan with installments payments and fixed interest rates. The credit rating of the customer is made according to the specific institution's usual credit policy. As of 1 July 2013 risk labeling of loans is introduced so that borrowers know exactly what risks are associated with a given loan.

At the same time, the mortgage bank sector has taken a number of initiatives, pulling in the direction of a more stable home financing in the long term. Thus, parts of the mortgage sector has introduced so-called two-layer loans where the outer 20 percentage points of the total mortgage cannot be an interest-only loan.

In addition some mortgage lenders have for example introduced differentiated contribution fees reflecting the risk associated with the loan. This means that interest-only loans have higher fees than loans with installment payments.