

Safeguarding the Danish mortgage model

November 6th 2013 PRESS NOTICE

Following the stricter requirements by rating agencies and the EU to the Danish mortgage-credit sector the Danish Government and Danmarks Nationalbank (the central bank) have thoroughly considered how to handle the sector's refinancing risk.

On that background the Government will put forward a bill which removes the refinancing risk of the mortgage-credit institutions.

The Minister for Business and Growth, Henrik Sass Larsen:

- *"The Government is acting in order to safeguard the Danish mortgage model as we know it today. The change should be seen in light of the increasing attention lately to the refinancing risk associated with adjustable-rate mortgage loans.*
- *With this bill, it is my expectation that the Danish mortgage-credit institutions will be able to maintain short term adjustable-rate mortgage loans which a lot of Danish borrowers appreciate. Therefore we introduce this protection of the loans which implies that borrowers are able to keep the loans as they know them today and which they appreciate.*
- *I would like to acknowledge the initiatives already taken by the mortgage-credit institutions to comply with rating agencies' increased requirements and the responsibility which has been shown in this regard. However, the Government and Danmarks Nationalbank find it necessary to safeguard the refinancing of adjustable-rate mortgage loans."*

The bill implies introduction of a forced extension under certain circumstances of the loan term for Danish mortgage bonds with adjustable rates. The term extension will be activated if the interest rate increases by more than 5 percentage points at an auction or if the auction fails. When the extension is activated, existing short-term bonds will be transformed into long-term convertible bonds according to the underlying loan.

The bill implies that investors will carry the risk for a term extension. However, this risk is likely to be low (see fact sheet). Therefore, the assessment is that the interest rate on the relevant mortgage bonds will not be significantly affected.

With this bill the only risk mortgage-credit institutions can take going forward is credit risk which was also originally the intention with the balance principle. The bill helps to ensure that Danish households and companies will still be able get the kinds of loans which they know.

The intention is that the bill will come into force from the 1st of January 2014 in order to swiftly ensure clarity in the market. The bill does not have implications for loans which are going to be refinanced by the end of 2013.

The intention is that the bill shall apply to newly issued mortgage loans (loans which are financed with mortgage bonds) as well as to existing loans at the time of the next refinancing. Hence the bill will apply to all mortgage bonds with a shorter term than the underlying loan issued after the 1st of January. Thus the bill introduces a market standard.

As a point of departure households and companies will keep their existing loan. At the first coming refinancing date it is the intention that the possible term extension should apply to the new bond. Apart from that the loan will remain unaltered. It is the expectation that the change can take place without significant costs to the borrowers.