



FINANCE  
DENMARK

# Danish Covered Bond System - Realkredit

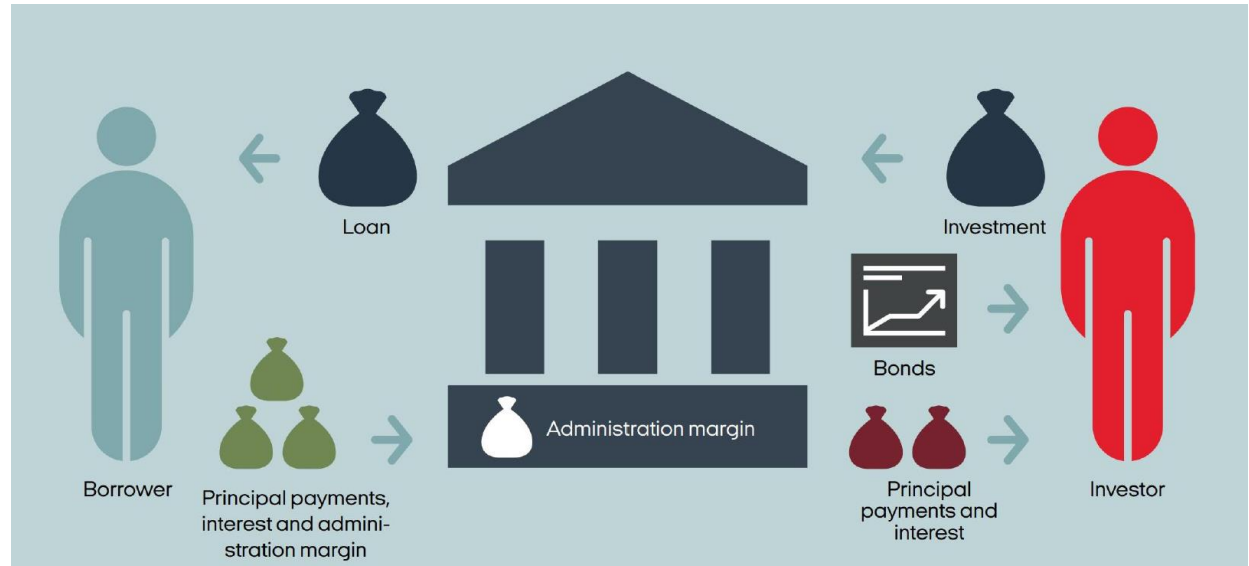
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## European Bond Markets and US High-Yield Bonds

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# Finance Denmark

Finance Denmark is business association for

- Banks
- Mortgage institutions
- Asset management
- Securities trading
- Investment funds

We promote a society rich in opportunities

- Today focus on covered bond financing of mortgage loans

# Program

- Facts about the Danish mortgage system
- Important characteristics
- The mortgage model
- Investors and market

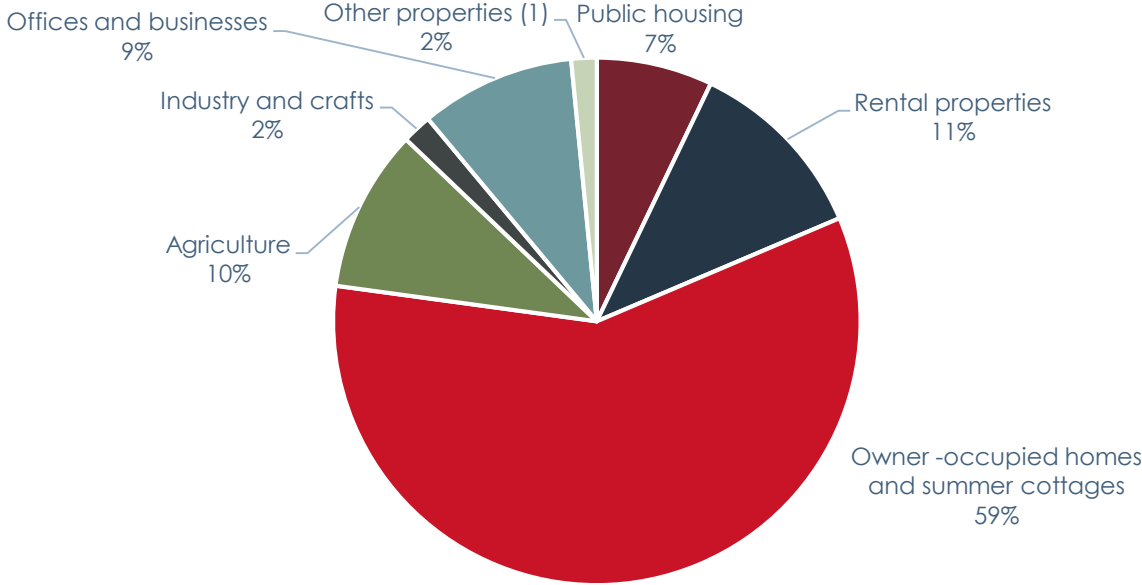
# Facts

- More than 200 years of existence:
  - First Danish mortgage bank established in 1797
  - Legal framework from 1850
  - Specialised legislation and supervision
  - Legislative framework changed over the years
- No mortgage banks have gone bankrupt for more than 200 years.

# Facts

- Total lending amounts to around DKK 2.700 bn. (EUR 350 bn.)
- The mortgage bank sector is the biggest lender in Denmark
- Around 1.600 covered bonds issued by Danish mortgage banks are listed at Nasdaq Copenhagen
- One of the largest covered bond markets in the world

# Loans by property type



1) Properties for social, cultural and educational purposes and undeveloped areas

# Characteristics

- Mortgage banks provides only loans secured by property within 60-80 per cent LTV limits
- Danish FSA regulates the valuation of properties, e.g. used when calculating loan amount
- Responsible lending
- Borrower is personal liable for mortgage debt.



# Characteristics

- Loans can only be financed by the issuance of covered bonds
  - ›Mortgage banks have no access to financing with e.g. deposits or through money market loans.
- The mortgage banks must comply with a balance principle when issuing bonds.
  - ›This limits the mortgage banks' risk
- Bond holders have a preferential claim in case of a mortgage bank default

# Characteristics

- Marked based system – the interest rate is determined on the capital market  
I.e. the mortgage banks do not set the interest rate.
- Transparency in bond prices.
- Borrower has right to prepayment – a prepayment is done at market terms
  - E.g. redemption at par value
  - Buy bond in market

# Loan types and interest rate fixings

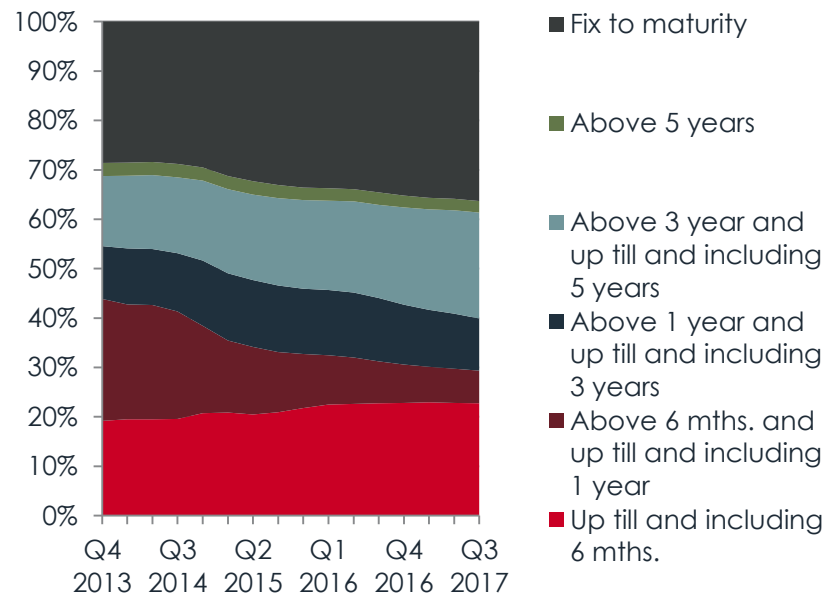
## Different loan types

Interest type:

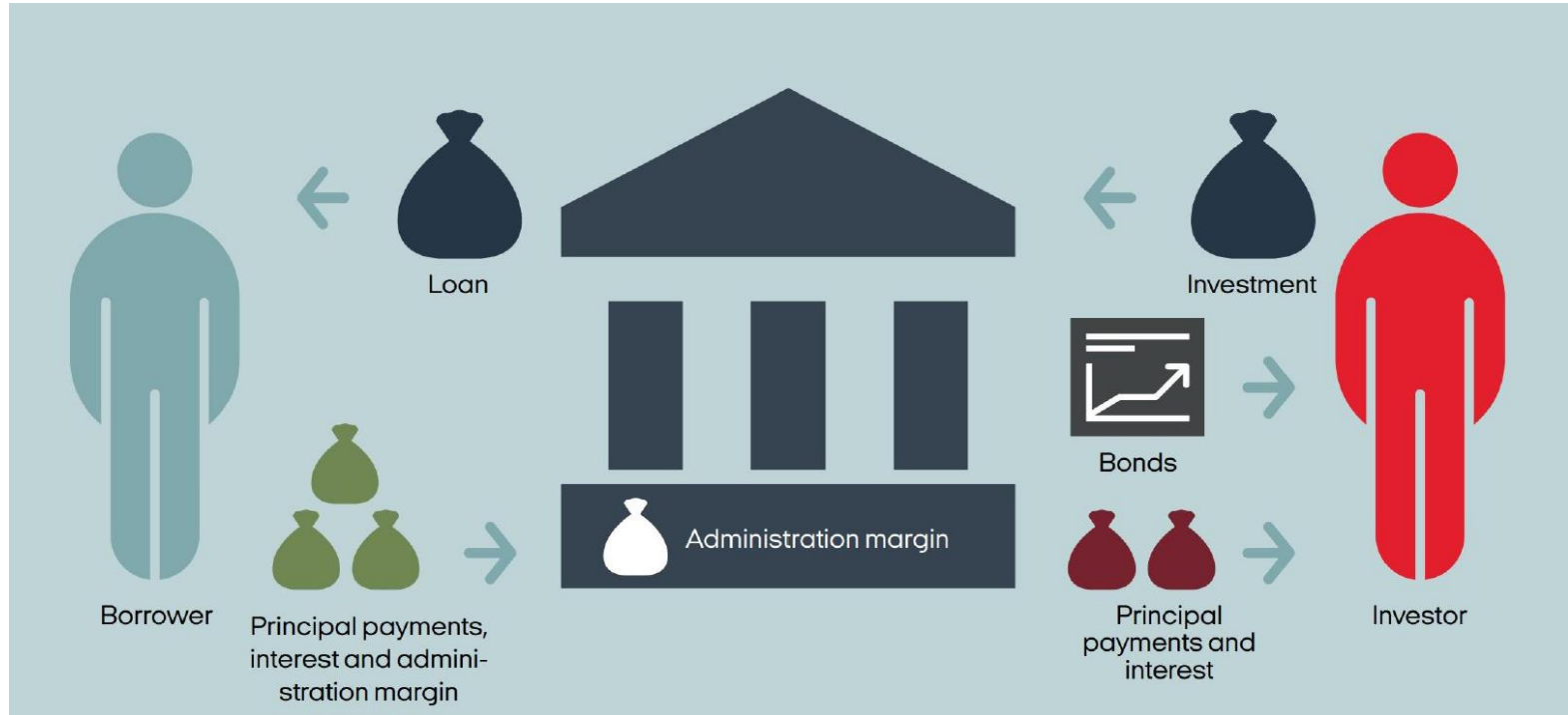
- Fixed to maturity
- Adjustable rate mortgages
- Money market based (cap is possible)

Interest only is possible

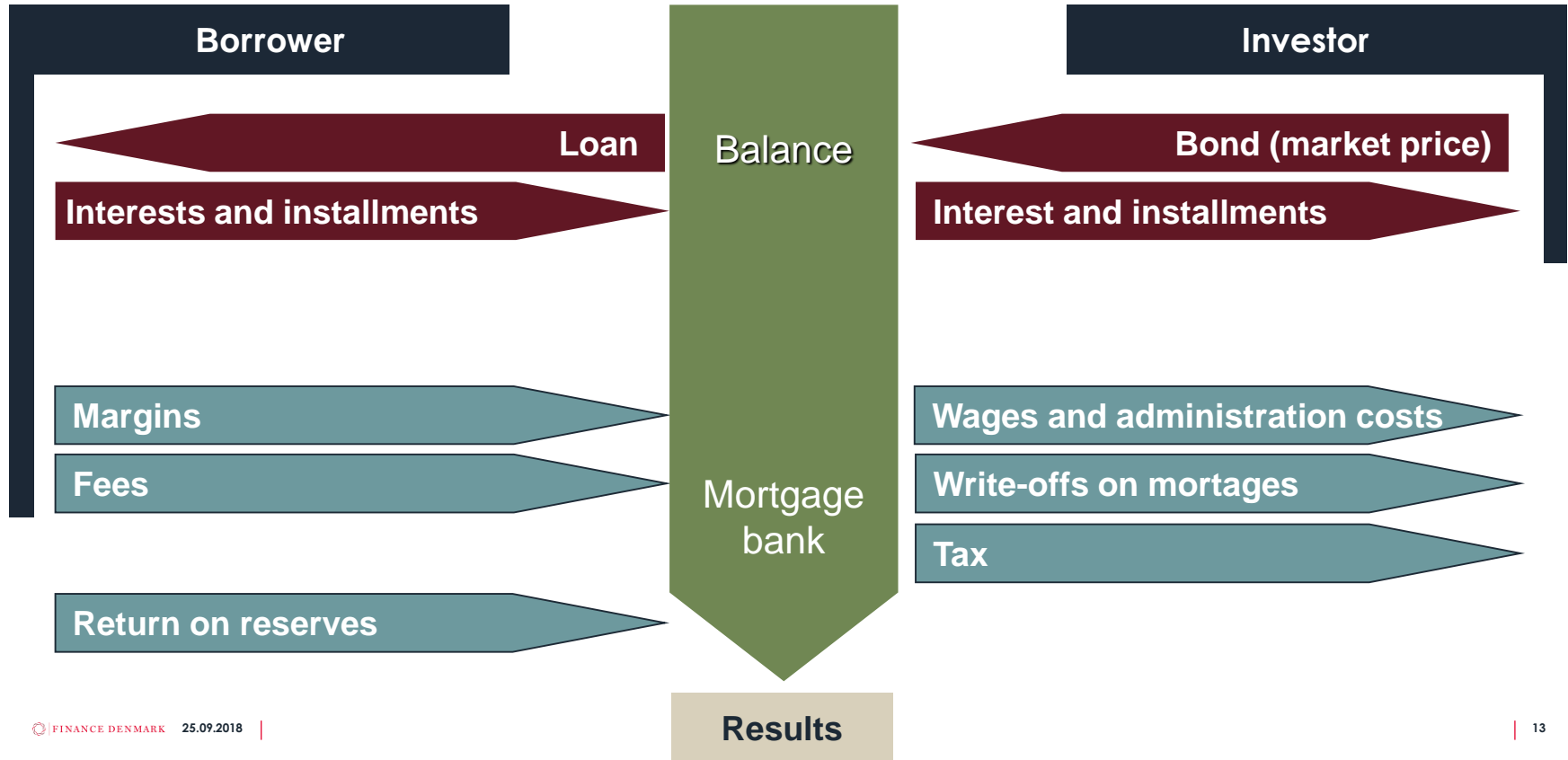
## Original rate fixation



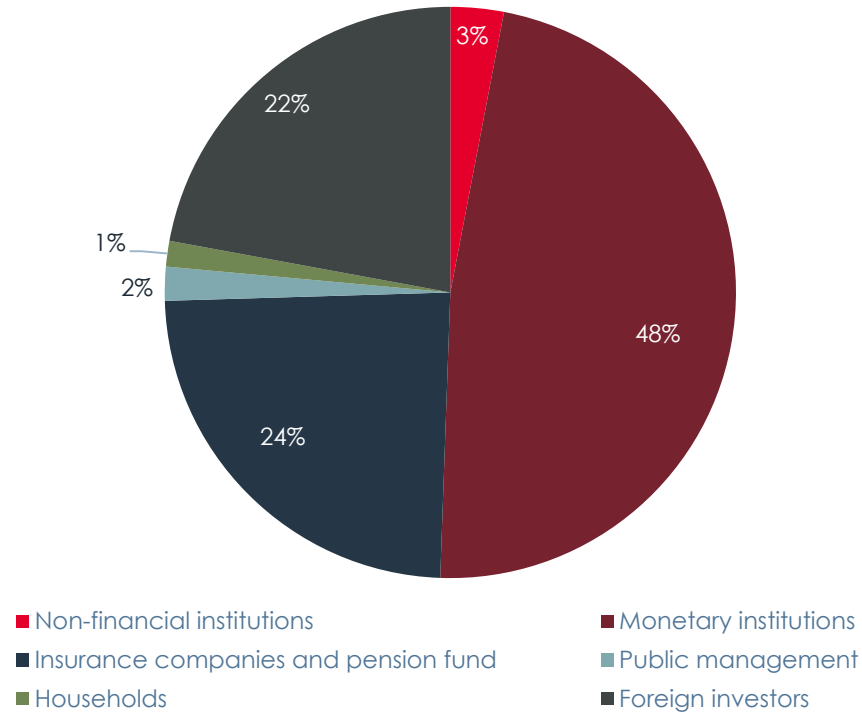
# The Danish mortgage and covered bond system



# System seen from mortgage bank

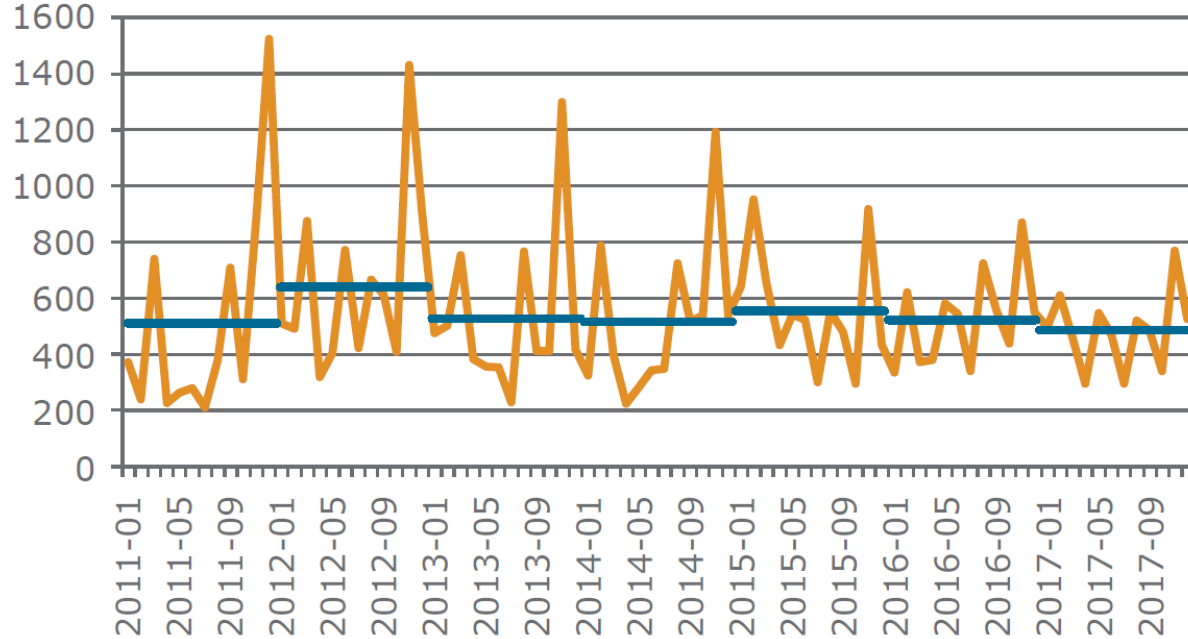


## Distribution of investors in danish covered bonds



Source: The Danish Centralbank

# Monthly turnover, DKK bn.



Source: Nasdaq Copenhagen  
Note: Non repo bond trading, including OTC. Horizontal lines indicate yearly average.

# Wrap up

- Balance principle and tap issuance
- Bond supply determined by loan demand
- Markets clear every day when new loans are funded
- High transparency
- Covered bonds are T2S eligible
- Liquid and secure high quality covered bonds



# Thank you

Please find publication about the Danish mortgage and covered bond model on [www.financedenmark.dk](http://www.financedenmark.dk)

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