

DANMARKS NATIONALBANK

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BANKING AND MORTGAGE LENDING, INTERESTS, MARCH 2018

Housing loans have never been cheaper

The average interest rate incl. administration fees on Danish housing loans declined to 2.19 per cent in March 2018. This is the lowest level ever recorded. Housing loans comprise credit from mortgage institutions and banks, primarily collateralized by real estate.

The lower lending rate means that the Danish households' yearly interest rate expenses on outstanding housing loans are reduced by kr. 3.7 billion, compared to March last year. This corresponds to Danish house owners, on average, saving kr. 1.800 in yearly interest rate expenses per million borrowed.

The reduced borrowing expenses on housing loans are caused by the adjustment to low interest rates

through converting and refinancing of loans. The average administration fees on mortgage loans have, on the other hand, remained stable around 0.91 per cent over the last year.

The average interest rate reflects, in addition to financial market conditions, also the composition and characteristics of the issued housing loans regarding loan to value, interest rate fixation, instalment profile, etc. This especially influences the average interest rate on new loans, which therefore fluctuates around the interest rate on total outstanding loans.

When more households, for example, obtain fixed-rate housing loans the average rate will tend to increase, since fixed-rate housing loans currently have higher interest rates than loans with variable rates. The increasing popularity of fixed-rate mortgages has thereby dampened the reduction in households' average interest rate expenses during the last year.

The falling interest rate payments have, among other things, contributed to house owners having larger economic flexibility to increase instalments on existing loans, further increase debt by borrowing against home equity, or buy more expensive real estate.

The total of outstanding loans to Danish households was kr. 2.300 billion in March 2018. Housing loans amount to kr. 2.100 billion (with kr. 1.800 billion issued by mortgage institutions and kr. 300 billion being bank loans) and the rest is primarily consumption loans.

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