

# DANMARKS NATIONALBANK

2 FEBRUARY 2023 — NO. 1

Many homeowners have refinanced their mortgages

## Refinancing wealth gains have reduced debt and may also support consumption

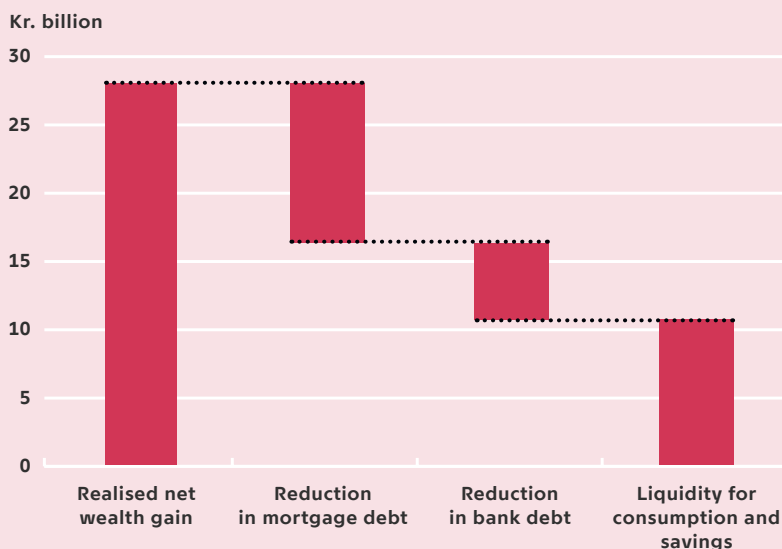
Many Danish homeowners have used interest rate increases to refinance their mortgages. When interest rates rise, the price of fixed-rate mortgage bonds falls, enabling homeowners to repay their loans at a price below the price of the loan when it was taken out. This means that homeowners can realise a net wealth gain, which they can use for various purposes. Danmarks Nationalbank's economists have conducted a study of how these homeowners have spent their net wealth gain. The study showed that most people have reduced their bank or mortgage

debt. Others have chosen to extract cash to support consumption or savings at a time when rising interest rates and high inflation generally dampen economic activity.

Access to detailed data in Danmarks Nationalbank's credit register has made it possible to map the behaviour of all Danish homeowners when refinancing loans in the period from January to September 2022. During the period, Danish homeowners refinanced fixed-rate mortgages worth kr. 173 billion,

### Refinancing wealth gains are primarily used to reduce debt

Source: Danmarks Nationalbank



corresponding to approximately one in five of all outstanding fixed-rate mortgages. The reason for the unusually high refinancing activity was a sharp increase in mortgage rates after several years of very low interest rates.

The average price at which homeowners bought back their loans during the period was kr. 82 per kr. 100 originally taken out. This resulted in a net wealth increase corresponding to 18 per cent of their debt before the interest rate increase. The actual net wealth gain was, however, smaller because of the costs of taking out a new mortgage loan.

The new study shows that approximately 42 per cent of the gain was used to reduce mortgage debt. Approximately 21 per cent was used to reduce bank debt, which usually carries a higher interest rate than mortgage debt.

Finally, the remaining approximately 38 per cent, corresponding to a total of kr. 11 billion, were extracted to support immediate consumption or deposited as savings. However, it cannot yet be concluded based on available data whether the realised net wealth

gain was actually spent on consumption in the short term. It is likely that homeowners have deposited the money in a bank account to have a buffer for the coming years, which will support consumption in the longer term. The money may also have been spent on home renovations or investments in equities and bonds.

Four out of ten homeowners refinancing their fixed-rate mortgage switched from a fixed-rate loan to an adjustable-rate loan, where the rate is typically adjusted every six months or every three or five years. Homeowners who have both refinanced to an adjustable-rate mortgage and extracted cash for consumption have become more vulnerable to rising interest rates and declining house prices. Nevertheless, the study shows that most homeowners having refinanced their fixed-rate mortgage still have leeway in their budgets and home equity available.

The survey has been published as an Economic Memo, which shows ongoing analysis performed by Danmarks Nationalbank's employees. The publication, which is available in English only, can be found here ([link](#)).

## PUBLICATIONS



### NEWS

News offers quick and accessible insight into an Analysis, an Economic Memo, a Working Paper or a Report from Danmarks Nationalbank. News is published continuously.



### ANALYSIS

Analyses from Danmarks Nationalbank focus on economic and financial matters. Some Analyses are published at regular intervals, e.g. *Outlook for the Danish economy* and *Financial stability*. Other Analyses are published continuously.



### REPORT

Reports comprise recurring reports and reviews of the functioning of Danmarks Nationalbank and include, for instance, the *Annual report* and the annual publication *Danish government borrowing and debt*.



### ECONOMIC MEMO

An Economic Memo is a cross between an Analysis and a Working Paper and often shows the ongoing study of the authors. The publication series is primarily aimed at professionals. Economic Memos are published continuously.



### WORKING PAPER

Working Papers present research projects by economists in Danmarks Nationalbank and their associates. The series is primarily targeted at professionals and people with an interest in academia. Working Papers are published continuously.

The news article consists of a Danish and an English version. In case of doubt regarding the correctness of the translation the Danish version is considered to be binding.

DANMARKS NATIONALBANK  
LANGELINIE ALLÉ 47  
DK-2100 COPENHAGEN Ø  
WWW.NATIONALBANKEN.DK



**DANMARKS  
NATIONALBANK**

## CONTACT

**Ole Mikkelsen**  
Communications  
and Press Officer

*omi@nationalbanken.dk*  
*+45 3363 6027*

SECRETARIAT  
AND COMMUNICATIONS