DANMARKS
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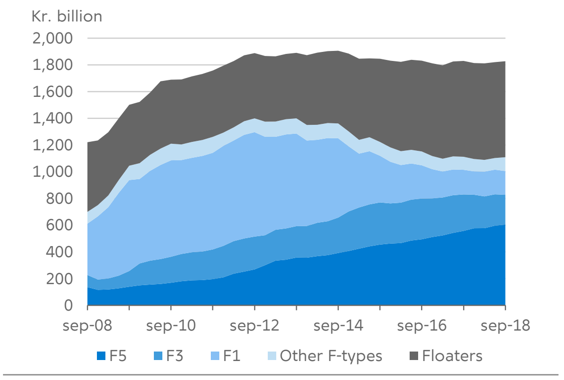
Increasing bond issues financing F5 mortgages

By end-September 2018, bonds totalling kr. 604 billion were issued to fund F5 mortgages. This is more than a twofold increase since September 2012. An F5 mortgage has an adjustable rate, which is fixed every five years. These bonds now fund more than half the Danish adjustable rate mortgages – and a third of adjustable rate mortgages and floaters combined (variable rate mortgage bonds).

Conversely, bonds funding F3 and in particular F1 mortgage loans have decreased in recent years. Floaters, having their interest rates adjusted quarterly or semi-annually, have also increased.

Bonds funding F5 mortgages have increased

Chart



Note: Outstanding amount of mortgage bonds funding variable interest rate mortgages, i.e. adjustable rate mortgages (F1, F3, F5 and other F-types) and floaters.

Bonds issued by Danish mortgage banks must match the underlying mortgages (the balance principle). Since bonds financing F5 mortgages have longer maturity than bonds funding F1 and F3 mortgages, they are not refinanced as often. The same applies for floaters, which typically have a maturity of 4-5 years and are refinanced during the loan's lifetime, like adjustable rate mortgages.

The changing distribution of variable rate mortgage bonds reduces the refinancing need. At refinancing auctions, mortgage banks issue new bonds and use the revenue to pay the owners of the maturing bonds. The yearly refinancing amount has decreased from around kr. 1,000 billion in 2012 and 2013 to less than kr. 600 billion in 2018, even though the total amount of variable rate mortgage bonds has been stable.

The shift towards bonds funding F5 mortgages should be viewed in the context of the interest rates. The difference between the five-year and shorter mortgage rates (one-year and three-year) has been small for several years. This makes it cheaper for borrowers to fix their interest rate additional years. In recent years, mortgage banks have increased contribution margins on mortgages financed by bonds with shorter maturity.

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