

DANMARKS NATIONALBANK

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Fewer mortgage bonds with coupons exceeding 1 per cent

Since October 2019, the volume of 30-year fixed rate callable mortgage bonds with a coupon rate exceeding 1 per cent has been reduced by kr. 261 billion, entailing that their share has declined from close to two thirds to only about one third of the outstanding volume of 30-year fixed rate mortgage bonds, totalling kr. 998 billion in October 2020.

The largest declines are in mortgage bonds with a coupon rate of 2 per cent and 1.5 per cent, falling by kr. 168 billion and kr. 33 billion, respectively. Conversely, in the same period mortgage bonds with a coupon rate of 1 per cent or lower increased by kr. 318 billion.

Refinancing totalling kr. 62 billion in January 2021

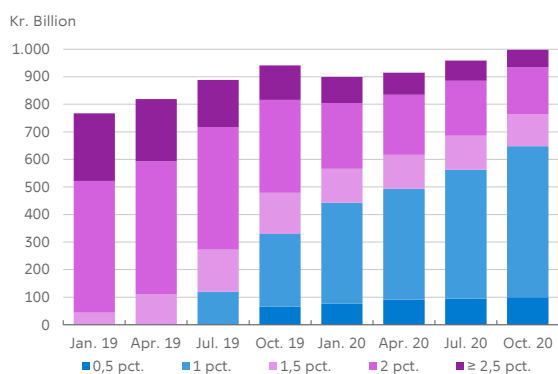
For the upcoming January 2021 pay date, fixed rate loans totalling kr. 62 billion had been redeemed at the termination deadline at end-October 2020, primarily mortgage bonds with a coupon rate of 1.5 per cent and 2 per cent. While this is more than for the two previous pay dates in 2020, the level is still considerably lower compared to 2019.

The generally lower level of refinancing in 2020 should be seen in the context of a decline in the number of mortgage loans where refinancing would be beneficial to the borrower. In order for the refinancing gain to exceed the costs of refinancing, the spread between the loan interest rate and the refinancing interest rate should be sufficiently large, and the outstanding loan debt must be of some size. Most loans with an underlying coupon rate of 2.5 per cent or higher have outstanding debt below kr. 1 million, while loans with a coupon rate of 1.5 per cent and 2 per cent primarily have outstanding debt exceeding kr. 1 million.

Institutional investors hold most mortgage bonds

Foreign investors hold 40 per cent of Danish 30-year mortgage bonds. The insurance and pension sector, along with investment funds, holds most of the remaining 30-year mortgage bonds. Their portfolios total kr. 331 billion and kr. 160 billion, respectively. The insurance and pension sector uses 30-year mortgage bonds to hedge long-term liabilities.

One third of 30-year mortgage bonds have a coupon rate higher than 1 per cent.



Anm.: Outstanding volume of Danish fixed rate callable mortgage bonds with an original maturity of 30 years excluding the institutions' own portfolios.

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