

DANMARKS NATIONALBANK

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SECURITIES, MARCH 2022

Decrease in the value of fixed-rate mortgage bonds

At the end of March, the market value of the 30-year fixed-rate mortgage bonds was kr. 134 billion lower than the nominal value. This means that borrowers with fixed-rate mortgages may potentially cut the outstanding debt by kr. 134 billion or 11 percent when refinancing their mortgage.

Approximately half of the 30-year callable mortgage bonds are issued with a coupon rate of 1 percent. Thus, the potentially largest reduction of the total outstanding debt of kr. 80 million comes from this coupon series.

The market value of existing 30-year fixed-rate callable mortgage bonds has decreased as long-term interest rates have increased since the start of 2022. The decrease in market value makes it possible for borrowers to redeem their mortgages ahead of time

by purchasing the underlying bond at a lower value than their outstanding debt. Thereby, it is possible to cut off a part of the remaining debt by converting to a new mortgage.

Reduction in the outstanding amount of debt depends on the coupon rate

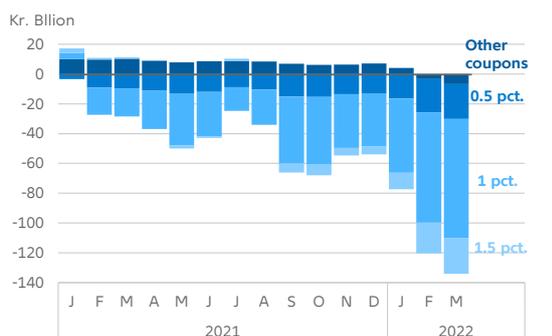
The potential reduction of outstanding debt depends on the current mortgage coupon rate and the size of the outstanding debt. Thus, homeowners with a coupon rate of 0.5 per cent may, in principle, reduce their outstanding debt by 17 per cent by refinancing. Homeowners with a coupon rate of 1 per cent can potentially reduce their outstanding debt by 14 per cent.

Considerations when refinancing

During the first quarter of 2022, fixed-rate mortgage bonds amounting to kr. 89 billion were redeemed, of which the largest part was redeemed in March. This tendency has continued into April. Redemption of mortgage bonds may take place through refinancing of mortgage loans, house sales etc.

When considering converting to a higher fixed-interest rate to reduce the outstanding debt, it should be taken into account that the interest rate on the outstanding debt increases. When converting to a mortgage loan with a variable-interest rate, it should be taken into account that the variable interest rate may increase in time. In addition, loan refinancing is typically associated with costs due to depreciation on the new loan and administration costs to the mortgage lender.

Large decrease in the market value of callable mortgage bonds



Note: Market value subtracted from nominal value of the outstanding amount of fixed-rate callable mortgage bonds with an original maturity of 30 years by type of coupon. Find chart data here ([link](#)).

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