

# DANMARKS NATIONALBANK

26 AUGUST 2022

SECURITIES, JULY 2022

## Still potential of loan conversion

In 2022, many borrowers have used the higher interest rates and thus lower prices on the underlying bonds to convert their fixed-rate mortgages. One reason for this is to cut a chunk of their remaining debt.

### Interest rate increase entails buybacks

The rising market interest rates in 2022 have led to large price drops for the underlying bonds of Danish fixed-rate mortgage debt. Thus, the borrowers have been able to pay off their fixed-rate mortgage debt by buying back the bonds at a lower price than when the loan was taken out. This allows them to reduce the outstanding debt.

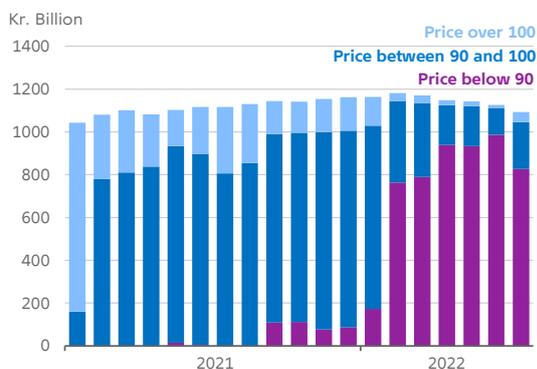
### Many bonds with a low price at the end of July

The lower the price, the more the borrower can reduce the remaining debt by performing buybacks of the fixed-rate mortgage bonds. However, the potential for conversion depends not only on the interest rate, but also on i.a. the borrower's time horizon and the size of the remaining debt. The proportion of bonds with prices lower than, for example, 90 reached its peak in June, with almost 88 per cent. It was mortgage bonds carrying an interest rate in the range 0.5-2 per cent which had a price lower than 90 in June. At the end of July, the proportion was still high at 76 per cent. Here, it was mainly bonds with an interest rate of 0.5-1.5 per cent which had a price lower than 90.

### Decrease in the amount of fixed-rate bonds

In 2022, the value of the total outstanding volume of 30-year, fixed-rate bonds have fallen by kr. 71 billion to kr. 1,093 billion. By contrast, the value of outstanding variable-rate bonds has increased by kr. 119 billion to kr. 1,855 billion. This is, among other things, due to the fact that some of the borrowers who have converted their loans have switched to a variable interest rate, where the interest rate is lower than on a new fixed-rate mortgage. Borrowers with variable-interest loans, however, run the risk that the interest rate will subsequently rise.

### Still many 30-year mortgage bonds with low rates



Anm.: The figure shows the outstanding amount (nominal value) of fixed-rate, 30-year, callable mortgage bonds grouped by price. Find data chart here ([link](#)).

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