

# DANMARKS NATIONALBANK

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## Bonds with low coupon rates are on the rise

The Danish 30-year fixed callable mortgage bonds with fixed rate amounts to kr. 958 billion in July 2020 with 59 pct. having a low coupon rate at 1 pct. or lower. Since July last year, these mortgage bonds have risen by net kr. 443 billion.

Danish borrowers have prepaid fixed rate mortgage loans for kr. 34 billion in the previous term – the July term. It was especially mortgage loans at 1 pct. which the Danish borrowers have converted to. The amount of prepaid mortgage loans is significantly lower compared to the previous two terms. This is in large due to the interest rate increase during the corona crisis.

### More bonds with low coupon rates to come

As the interest rates have been declining and have reached the level before the corona crises, Danish loan takers can benefit from restructuring loans. The Danish loan takers have prepaid fixed rate mortgage loans for kr. 54 billion for the next term.<sup>1</sup>

### Institutional investors buy bonds

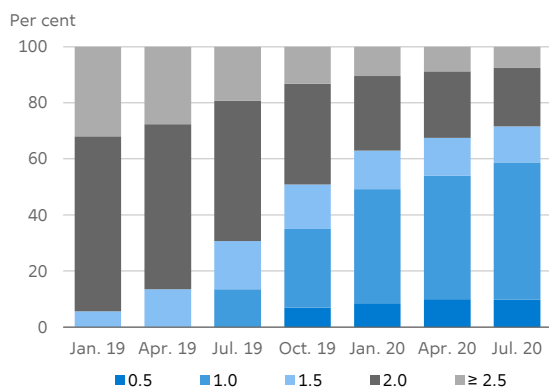
The majority of investors of 30-year fixed rate callable mortgage bonds are domestic investors, mainly from the insurance and pension sector as well as investment funds. They own kr. 314 billion and kr. 152 billion in July 2020, respectively, corresponding to 33 pct. and 15 pct. ownership share. The insurance and pension sector purchases long-term mortgage bonds to match their long-term liabilities.

Foreign investors own kr. 389 billion of the Danish 30-year fixed rate callable mortgage bonds. This corresponds to an ownership rate of 41 pct.

### Low risk for lock-in effects

87 pct. of the 30-year fixed rate callable mortgage bonds have a low ownership concentration, i.e. no single investor with ownership share above 20 pct. The risk of so-called lock-in effects is limited where a single investor has significant influence on the price. This is relevant if loan takers wish to restructure their loans after a price increase to a loan with higher coupon rate. Lock-in effects is irrelevant when restructuring to a loan with lower coupon rate since the loan can always be prepaid at price 100.

### More mortgage bonds with low coupon rate



Note: Danish 30-year fixed rate callable mortgage bonds excl. ownership of own bonds at group level. Months indicate term months, i.e. January, April, July, and October. Coupon rate in per cent.

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<sup>1</sup> The deadline for the October term was July 31<sup>st</sup> 2020. The amount is from August 25<sup>th</sup> 2020 published by mortgage institutes.