

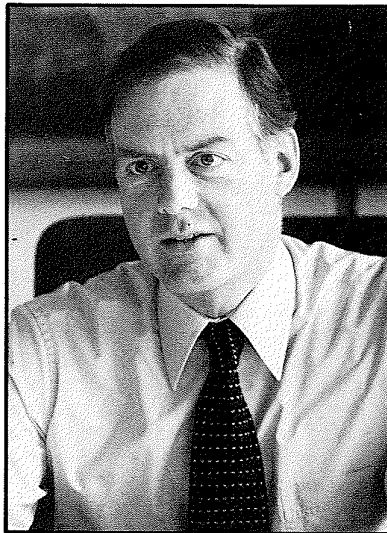
Denmark's credit institutions spread their wings

Since last year, Danish mortgage credit institutions have been allowed to lend in other OECD countries, as Erling Olsen explains

TRADITIONALLY, building and construction have been domestic industries, but now they have gone international. Danish contractors in the building trades and Danish exporters of building components are exporting goods and services abroad totalling some 2% of the Danish gross national product. The Danish import of construction and building components is of a similar magnitude. Even in building and construction we are moving towards a world market.

When Danish architects, engineers and building contractors decided to go abroad, they were helped by Danish commercial banks and savings banks, partly because they wanted to serve their clients abroad to keep them as clients at home, and partly because they wanted new business. In most cases, the Danish commercial banks or savings banks financed the Danish exports during the construction period, ie the time which elapsed before long-term mortgage credit could be arranged through a local mortgage credit institution.

The services provided by Danish banks and savings banks to the exporters of construction and building components were not very different from those rendered to other Danish exporters during the years when Danish banks had been allowed to go international. At the outset the foreign lending was carried out as "cross-frontier lending" from Copenhagen, but after a while the banks were allowed to establish themselves abroad. They often started by setting up representative offices.



Subsequently, the representative office might be followed by a foreign branch or subsidiary or the Danish bank or savings bank. In some cases it might buy a foreign bank or move into some joint venture with foreign banks or other foreign credit institutions.

During the early 1980s, the Danish mortgage credit institutions asked themselves and the Danish authorities why they should not be allowed to follow their clients abroad, given that the Danish commercial banks and savings banks had been allowed to do so.

Financing of construction in Denmark is segmented. The commercial banks and the savings banks account for most of the financing of buildings during the construction phase. At the end of this phase the

mortgage credit institutions take over. The Danish mortgage credit institutions are not profit-seeking institutions, but they do make profits, although the spread between their lending and funding rates of interest is only some 0.5%. This is due to their low costs of administration, which can be explained partly by their very simple lending practice.

Mortgages are granted on the security of the property only, and they cannot exceed 80% of the value of the property. No regard is paid to the borrower's financial circumstances. This makes possible a high degree of automation in lending processing. The Danish mortgage credit institutions fund themselves by issuing bonds on the market.

They may issue as many bonds as they need to supply borrowers with the mortgage loans required. Consequently, mortgage loans are always available at a market-related rate. The institutions have no problem in matching assets and liabilities because their loans are matched by bond issues with similar terms.

The Danish mortgage credit institutions were, however, not allowed to operate outside Denmark, although they would no doubt be competitive abroad. If Danish exporters of construction could not only market their own skills but also those of the Danish mortgage credit institutions, ie not only construct the buildings abroad but also have them mortgaged in the Danish fashion, they could probably increase their exports. Hence they supported the mortgage credit institutions' demand

→ 50

← 48

for permission to operate abroad like the Danish commercial banks and savings banks.

Initially, the Danish authorities were rather reluctant to permit their mortgage credit institutions to go international, but in June 1985 the Danish Parliament unanimously passed a new Act which allowed Danish mortgage credit institutions to lend in other OECD countries on an experimental basis. However, the annual lending activities must not exceed 3% of their equity capital, and the mortgage credit institutions were to cover their interest and foreign-exchange risks. They were also required to fund their foreign lending activities on foreign capital markets.

The table shows certain key figures for the three Danish mortgage credit institutions issuing bonds to finance housing. Following these figures are their annual quotas for lending in other OECD countries. The export demand for mortgages is growing so fast, however, that the 3% foreign lending quota is becoming insufficient.

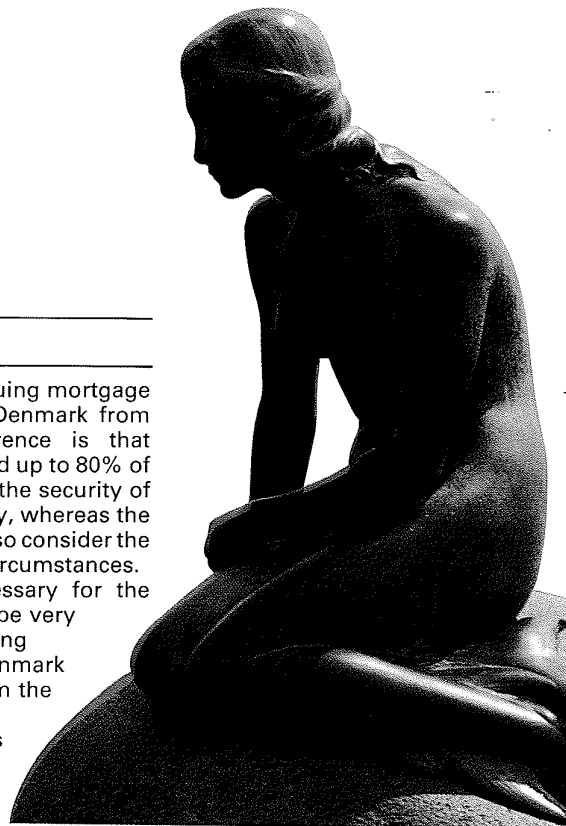
It is expected that the Danish authorities may allow Danish mortgage credit institutions to establish themselves abroad even before 1989 when the European market for mortgage loans is scheduled to be liberalised under a European Community directive. A Royal Commission is considering how this could be done — if it should be done. Throughout 1986, however, foreign lending will take place as cross-frontier lending from Denmark.

Kreditforeningen Danmark (KD) was the first Danish mortgage credit institution to involve itself in the foreign lending business, but the other two institutions soon followed suit. They are all active in the German market. KD is implementing plans to lend in Great Britain, France, Portugal and the United States.

The German market is the closest one to the Danish mortgage credit institutions, not only from a geographical point of view but also from an institutional one. The whole idea

of setting up bond-issuing mortgage institutions came to Denmark from Germany. The difference is that Danish institutions lend up to 80% of the property value on the security of the property value only, whereas the German institutions also consider the borrower's financial circumstances.

This makes it necessary for the Danish institutions to be very cautious when assessing property values. In Denmark this is never done from the central offices, but by professional surveyors operating in the local areas. Lending abroad makes it



**Key Figures for Mortgage Credit Institutions in Denmark.
30 November 1985 and Year Ending 30 November 1985.**

	Total Assets	Equity Capital	Profit	Foreign Lending Quota
	DKrm	DKrm	DKrm	DKrm
Kreditforeningen Danmark (KD)	229,651	13,985	1,000	425
Nykredit	224,340	14,053	1,117	425
Byggeriets Realkreditfond (BRF)	87,399	6,209	403	183
Total	541,390	34,247	2,520	1,033

Source: Realkredittraadet, *Beretning og regnskab*, 1985, Copenhagen 1986, pp. 86-91. (DKr1 = \$0.11).

even more important to use local professional surveyors.

The British market is a little more difficult for the Danish mortgage credit institutions because mortgage lending often goes up to 90% or 95% of the property values, and this requires an evaluation of the borrower's financial status. But at the upper end of the market 80% is enough, and Danish builders usually supply this end of the market.

France is even more difficult to work in for a Danish mortgage credit institution, but Danish contractors are active in France and they want assistance from their domestic mortgage lenders. The keyword here is joint ventures between Danish and French mortgage lenders.

In Portugal, Danish mortgage credit institutions may lend in sterling or German marks, mostly against security on holiday homes on the Algarve coast.

The American market offers exciting potential for Danish mortgage lenders because it is so innovative. It leaves an impression of a future global mortgage credit market. ■

Dr. Erling Olsen, MP, was born in 1927. He has been a Professor of Economics at the University of Copenhagen and Vice-Chancellor of Roskilde University, Denmark. He has been a member of the Danish Parliament since 1964. From 1978 to 1982 he was Minister of Housing. He is now with Kreditforeningen Danmark.