Mortgage finance in Scandinavia

By Torben Gjede

IN the four Nordic countries, the main part of the total amount of credit granted belongs in the capital markets. But the size and position of the mortgage credit institutions in the individual countries vary greatly. As far as Denmark is concerned, the mortgage credit institutions are without any doubt the biggest lenders, whereas the banks and savings banks are predominant in Finland. This is also the situation in Norway, but here the state banks also take up a central position. In Sweden the mortgage credit institutions, the banks, and the savings banks have equal shares of the credit market.

Thus the mortgage credit institutions take up different positions in the individual countries. These differences are also found within the primary loan purposes. In Denmark and Sweden the institutions grant a large amount of housing finance loans, even though the amount of commercial credit granted in Denmark is also high. In Finland and Norway, however, the mortgage credit institutions primarily grant commercial credit. Over the past few years, however, the volume of credit granted by the Norwegian institutions for housing finance has gone up considerably.

THE purpose of this article is to provide an overview of the mortgage credit institutions in the Nordic capital markets, ie in the medium-term and long-term sections of the capital markets in Denmark, Finland, Norway and Sweden. The general economic structure and the basic housing supply in the Nordic countries are largely speaking homogeneous (Table 1). This makes it interesting and worthwhile to compare the capital markets, including the position of the mortgage credit institutions.

The term mortgage credit institution is not unambiguous. In the following the definition of the term mortgage credit institution is an institution whose main function is to grant loans against mortgage in real property.

The mortgage credit institutions in *Denmark* are by far the largest lenders in the Danish capital market. They grant loans against mortgage in real property based on bond issuing. In the legislation governing their activities, detailed regulations as to their lending are laid down. Generally, the lending terms vary according to loan purpose. For instance, it is possible to borrow a higher percentage of the value of the mortgaged property in the case of a new building than in the case of resale of an owner-occupied dwelling. Distinctions are also made between the applications of various buildings, as the lending limits for, eg, owner-occupied dwellings are different from those that apply to industrial property.

In *Finland* there are only a few mortgage credit institutions in the capital market, and compared with the other countries in Western Europe their share of the total volume of credit granted is relatively small. The mortgage credit institutions co-operate on the bond market as bond issues require a licence from the Government and the Bank of Finland. Furthermore, several of the institutions take up bond loans in the international capital market.

Mortgage credit institutions and credit companies in *Norway* procure capital through the sale of bonds on the domestic market. During recent years, the mortgage credit institutions have also to an increasing extent provided capital through the so-called certificates market, in which they are able to offer loans with a particularly short fixed-interest period.

The loans granted by the mortgage credit institutions are mainly medium-term and long-term credits granted to dwellings and commercial projects against a mortgage on real property. Furthermore, they

REPRESENTATIVES from the mortgage credit institutions from the four Scandinavian countries — Denmark, Finland, Norway and Sweden — assemble every fourth year to exchange experience of real estate financing and to discuss development trends for the years ahead. The latest Nordic Mortgage Credit Conference took place in Copenhagen from 31 August to 2 September, 1989. As background material for the conference a booklet, "Mortgage Credit Financing in the Nordic Countries", was prepared. Torben Gjede, who in the four years prior to the conference has been secretary-general for the Nordic mortgage credit co-operation, explains in this article, with reference to the booklet, the Scandinavian model of estate financing. The booklet has only been published in Danish, but will at the beginning of 1990 also be published in English. Copies of the booklet can be ordered from The Council of Danish Mortgage Credit Institutions (Realkreditrådet, Vesterbrogade 4A, DK 1620 Copenhagen V, Denmark).

grant long-term loans to local authorities, municipal enterprises and power stations. A characteristic feature of the loans granted by the mortgage credit institutions in Norway is that they are in principle irrevocable by the lender, and that the loans are offered with varying fixed-interest periods.

The *Swedish* mortgage credit institutions comprise the housing finance institutes as well as credit companies financing dwellings and agricultural projects. The dwelling-financing institutions also finance office and shop premises, etc. The credit companies are all owned by banks. These companies are allowed to finance their lending through the issuing of bonds.

Competition

As mentioned above, the mortgage credit institutions in the Nordic countries do not have the monopoly of granting loans for the financing of real property. Also, banks and savings banks, and in some countries the state, contribute to this financing although there are large differences between countries. However, it is characteristic that the German Bausparkasse system is not known, although the UK-type building society system is encountered.

The *Danish banks and savings banks* grant loans against mortgage in real property; however, not by the issuing of bonds, but on the basis of deposits with a shorter lifetime. Partly due to this, bank financed housing loans have variable interest contrary to mortgage credit loans with fixed interest.

The *Finnish banks* and the government have a much stronger position in the housing finance market. Both the government and the mortgage banks procure capital in the bond market. The government has granted a large number of direct housing finance loans at low interest rates, and the major part of the long-term credit granted to the agricultural trade is supplied by the government through the banks. The banks cover the largest part of the long-term housing finance.

In *Norway* the banks and savings banks also have a central position, along with the Norwegian state banks.

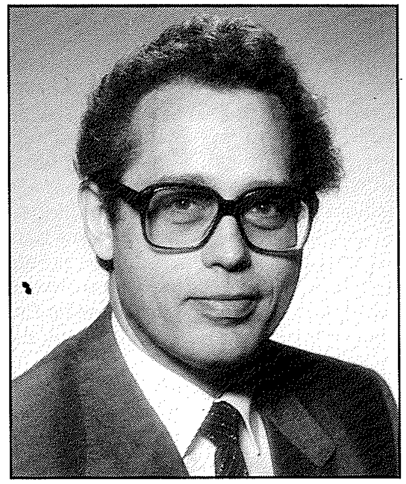
The *Swedish banks* finance new buildings and rebuilding of existing dwellings through the granting of credit during the construction period. The banks' share of this financing is, however, decreasing as the biggest mortgage credit institution — Stadshypotekskassan — and the housing financing institutions, through variable interest loans, have taken over a major part of the market for housing credit. The banks also supply permanent mortgage credit loans, which in principle are short-term. Finally, bank loans are important in the turnover of real property.

In Table 2 figures are given for the registered outstanding loans in the Nordic countries.

Table 1
The four Nordic countries — main figures

	Denmark	*Finland*	*Norway*	*Sweden*
Population 1,000 persons, 1988	5,130	4,954	4,159	8,459
Gross domestic product US$ per inhabitant, 1988	19,097	19,243	19,963	19,239
Housing investments[1] 1988	4	7	5	5
Housing stock 1,000 dwellings	2,306[2]	2,020[3]	1,524[4]	3,863[5]

Note: DKK100 = US$739.90
Source: Mortgage Credit Financing in the Nordic Countries, 1989
1. Percentage of gross domestic product
2. 1988 3. 1986 4. 1980 5. 1985



Lending activity

The lending activity of the mortgage credit institutions is subjected to rules laid down by the central authorities. These rules fix the limits of lending in the security of assets (dwellings/industry, machines, etc).

A key principle of the *Danish* mortgage credit lending system is that loans are mainly granted for specific purposes, ie loan type, lifetime and lending limit will depend on the loan purpose and the property category.

As for owner-occupied dwellings, the general maximum loan limit is 80%. Up to 80% of the value (building costs, in the case of new buildings, or the sales price in connection with change of ownership) can be financed with a mortgage credit loan. The lifetime of a mortgage credit loan for owner-occupied dwellings will depend on the purpose of the loan, ie, if it is for new buildings, rebuilding, extensions or change of ownership. The life is longest (up to 30 years) in connection with new buildings.

Loans for owner-occupied dwellings are typically granted as fixed-

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← 5
interest nominal loans.

In Denmark we have a special property category, the so-called non-profit dwellings, which are subsidised through public subsidies (ie, interest subsidies). The lending limit for these properties is higher than for ordinary owner-occupied dwellings: up to 94% of the purchase sum can be financed with a mortgage credit loan, provided there is a government guarantee exceeding 65%. Loans for these properties are granted only as index-linked loans.

In *Norway* loans for houses are granted within 60-80% of the value (typically a little lower than the market value). Loan limit, lifetime and repayment profile will vary from institution to institution. These limits are fixed on the basis of commercial criteria and are not regulated. The loans have a lifetime varying from 25 to 30 years. Five years of no repayments is usual, and annuity loans are commonly used.

In *Sweden* the mortgage credit institutions may grant both long-term and short-term loans, and both variable interest and fixed interest loans. There are very few restrictions on amortisation etc, so that a number of unhomogeneous conditions do exist in the markets.

Typical for Sweden is also the big difference between the formal life of the loans and the actual period of amortisation. Amortisation schemes of 30, 40 or 60 years exist, but the loans granted today frequently have lives of only five years and never more than 10 years. It is impossible to say today which amortisation terms will be in force in five or 10 years. In reality it functions in such a way that as long as there are no credit restrictions, the amortisation schemes will never be compulsory. Credit-worthy borrowers can always obtain the liquidity wanted.

The housing finance institutions grant permanent loans against a mortgage on real property within 85% of the value of the property. First-mortgage loans for newly built or rebuilt properties with government subsidies may go up to 70% of the estimated value.

The lending activity of the mortgage credit institutions is procured through the issuing of bonds. This means that the bond markets are very important for the mortgage credit institutions, ability to grant competitive financing.

Calculated at nominal value, both Denmark and Sweden have very big bond markets amounting to between DKK900 billion and 1,100 billion.

However, the structures differ, as banks etc account for a larger share of the bonds in circulation in Denmark than in Sweden, viz, almost 65% against 50% respectively. On the other hand; the relatively large share of government bonds in Sweden has been reduced, and for 1988 it is approximately the same size as in Denmark.

The Norwegian bond market amounts to about one-fifth of the Danish market. Two-thirds of the issues are handled by the government and the mortgage credit institutions, while the remaining part is issued by banks etc.

It is interesting to see that in the summer of 1989 Swedish and Norwegian bonds were quoted on the Copenhagen Stock Exchange. This is due to a turnover tax on all trade with bonds and interest-bearing claims on the Swedish Stock Exchange, but may also be due to the big and well-working bond market in Copenhagen. ■

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Table 2
Registered outstanding loans in the four Nordic countries

	Mortgage credit institutions	*Banks and savings banks*	*Public sector*	*Other institutions*[1]	*Total*
	bn US$	bn US$	bn US$	bn US$	bn US$
Denmark					
end 1985	49.4	37.5	41.4	15.7	144.0
end 1988	71.7	57.4	40.2	17.0	186.3
Finland					
end 1985	3.1	45.6	10.4	23.0	82.1
end 1988	5.0	80.2	11.6	29.1	125.9
Norway[2]					
end 1985	5.4	30.3	17.8	9.3	62.8
end 1988	16.0	48.9	21.4	14.1	100.4
Sweden[2]					
end 1985	47.8	39.2	21.7	21.8	130.5
end 1988	79.4	67.7	28.1	32.1	207.3

Source: Mortgage Credit Financing in the Nordic Countries, 1989.

1. This group covers, in Denmark: Insurance companies, pension funds, private mortgages, the Ship Credit Fund of Denmark, the Local Government Credit Association, as well as other bond-issuing institutions.
   In Finland: Insurance companies, pension funds, private credit companies and other financing institutions.
   In Norway: Finance companies, insurance companies, the bond market (except for mortgage credit institutions) and other credit institutions (ship financing and export financing).
   In Sweden: Insurance companies, finance companies, securities dealers and intermediaries which are not mortgage credit institutions.
2. Includes only loans granted to the general public, ie, households, non-financial companies, and local authorities. Credits between lender groups are not included. Also for Sweden, credit in foreign currencies is not included. In 1987 banks etc had total outstanding credits of DKK 226 billion in foreign currency.