

# Annual report 2001

## Summary



REALKREDITRÅDET

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## Introduction

This publication is a summary of the Danish version of the annual report for the year 2001 of Realkreditrådet (the Association of Danish Mortgage Banks). It consists of four main parts.

The first part contains the "President's report for the year 2001".

The second part, which is called "Mortgage financing in Denmark - in brief" gives a brief, historical introduction to the development in the Danish mortgage credit market.

The third is a "Summary" of the development in the Danish mortgage credit market in the year 2001.

The fourth and last part is called "Realkreditrådet - the Association of Danish Mortgage Banks" and provides an introduction of Realkreditrådet as the trade organisation of Danish mortgage banks as well as a brief description of the individual mortgage banks that are members of Realkreditrådet.

## President's report

When we look back on the year 2001, both international and national factors had a major impact on both the economic development and on the activities of the Danish mortgage banking sector.

The terrorist attack on the USA on 11 September contributed to intensifying the uncertainty surrounding the international, cyclical development. A consequence was easier monetary policy in many countries. In the USA, fiscal policy was also softened.

In this situation, the Danish economy is well equipped with a considerable surplus on the balance of payments, low unemployment and inflation, and the continued target of cutting public debt. In addition, the general election to the Danish Parliament (Folketinget) had the effect that it is now easier to make decisions in a more clarified situation. This means that in the time to come we can foresee a balanced development in the property market and the mortgage banking market.

In 2001, gross loans totalled DKK 335 bn (equal to €45.1bn - the following figures will be in €). This very high loan amount - only loans in 1998 were higher at €35bn - was primarily due to the quite considerable level of re-mortgaging activity at the end of the year. In Q4 alone, the gross volume of new loans was well over €20.2bn. Also the net volume, which is calculated less prepayments and repayment amounts, was at a high level of around €9.4bn in 2001.

In view of the historically low, short yields, many borrowers have chosen to take out adjustable interest loans, of which an increasing number has been taken out in euro. In 2001, half the gross loan volume was thus granted as adjustable interest loans. The increase in interest was biggest among home-owners, whereas agricultural properties is the property category where the biggest share of all loans was taken out as adjustable interest loans. Around 20 per cent of all outstanding mortgage loans is now made up of adjustable interest loans. Loans in euro amounted to just below €6.1bn in 2001 against just below €0.9bn in 2000; euro loans thus account for 5 per cent of all outstanding mortgage loans. Though Denmark is not a member of the Euroland, Danish borrowers are thus attempting the benefit from the common currency. It is no secret that Realkreditrådet is looking forward to the time when it will once again be possible to take up the issue of Danish participation in the common currency.

It is a good thing that customers are given the freedom to choose. And it is hardly surprising that many borrowers choose the adjustable interest loans due to the lower interest payments. These loans reduce costs in the business sector and leave home-owners with a larger disposable amount. The mortgage banks are aware that more choices will also lead to a higher demand for advice. It is important that borrowers are familiar with both advantages and disadvantages when they choose between different types of home loans.

In 2001, the Danish mortgage banks adopted a set of European, ethical guidelines - the "Code of Conduct" - to be used when granting home loans. The aim of the Code is to create common rules regarding information about home loans, including the use of a standardised information form. That way we strengthen the consumers' opportunity of forming an overall impression of the terms in force for taking out home loans in the EU.

In the past few years, efforts have been made internationally to modernise the demands placed by the authorities in the capital base of credit institutions, including mortgage banks. The

The intention is that the capital adequacy requirements, which contribute to supporting confidence in the financial sector, must to an increasing degree reflect the actual risk involved in lending and other activities. These rules are of vital importance to the mortgage banks.

Realkreditrådet, who supports the principles behind the deliberations, is particularly interested in determining capital adequacy requirements for loans supported by mortgages. Realkreditrådet is concerned to see that so far it has been difficult to create responsiveness to the necessity that the importance of the security offered is taken into consideration to a sufficient degree. As discussions progress, Realkreditrådet will continue to work towards having taken into consideration the limitation in risk - and hence in losses - that the backing by mortgages offers at all times.

In 2001, targeted efforts were still being made in the EU to allow for the establishment of a harmonised and integrated European securities market by 2003. An integrated market will i.a. be based on harmonised rules concerning the contents of prospectuses, the abuse of markets, the information obligations of issuers as well as "good practices" rules. Realkreditrådet look positively upon these initiatives towards cross-border transactions in securities, where it is expected to become easier for issuers of securities to become listed on other stock exchanges and correspondingly easier and less risky for investors to invest in securities listed on other stock exchanges. A harmonised market may thus create deeper knowledge and interest in Danish mortgage bonds with international investors.

The rating of mortgage bonds that has in the past few years been carried out by most mortgage banks is also of great importance for the continuing and growing sales of these bonds to foreign investors. We were therefore pleased to learn that in 2001 the credit rating agency Moody's made a general up-rating of Danish mortgage bonds in those institutions that had already been rated; this up-rating was particularly an expression of a positive re-assessment of the high degree of investor security linked to investments in mortgage bonds. Today, Danish mortgage bonds thus have highly satisfactory ratings at the level AAA - AA2.

In addition it is worth noting that in 2001 a new legal framework was made for the financial sector. With the Danish Financial Services Act passed in May 2001 as a financial framework act for financial services companies in combination with sector legislation for the respective areas, Realkreditrådet believes that a sensible legislative structure has now been established. With the Danish Mortgage Credit Act the visibility of the characteristic features of mortgage credit as a product, and hence also the regulation that helps secure and preserve the "gilt edges" of the mortgage bonds, may be maintained.

Realkreditrådet is open to discussions about the interface between the Danish Financial Services Act and the Danish Mortgage Credit Act, just as an analysis of the structure in the sector legislation would seem appropriate. In this connection, the opportunity should be taken to liberalise the Danish Mortgage Credit Act so that it will only contain such regulation that is justified in the security of the mortgage bonds.

Sven Holm  
President, CEO, Realkredit Danmark

## Mortgage financing in Denmark - in brief

The first Danish mortgage bank was set up in 1797 as a direct consequence of the need to finance the rebuilding of Copenhagen after a great fire in 1795. Since the mid-19th century, the mortgage banks have taken up a predominant position in the financing of real property in Denmark.

The Danish mortgage market is based on effective and low-cost arrangement of credit of which the following features are characteristic:

- the loans are granted against security in the real property of the borrower
- the loans are fixed-interest, long-term loans
- the loans are granted within certain limits laid down in the Mortgage Credit Act
- the effective interest is fixed by the market in a transparent manner
- the loans are funded entirely through issuing of bonds
- the bond investors have full knowledge of the security of the bonds which is based on the mortgage on the real property, the legal framework, and the solidity of the mortgage bank
- through nearly 200 years all bonds have been repaid.

Through the long-standing tradition as financial market players specialised in the granting of long-term loans against mortgages on real property, the mortgage banks have achieved a central position in the Danish economy. The significant dual role of the mortgage bonds - as an effective funding instrument on the one hand, and a secure investment on the other - has given the bonds a central position in the Danish capital market, and in the longer term also in a wider international perspective.

*Further information about Danish Mortgage Credit Activity is available in:*

- *“Mortgage Financing in Denmark”*  
*and*
- *“Danish Mortgage Bonds”*

*Both published by Realkreditrådet.  
Please contact Realkreditrådet for free copies.*

# Summary

## Financial Legislation

In May 2001 the Folketinget passed a new Financial Services Act with a broadly-based majority. The Act - which is a new initiative compared with the previous legal structure of the Danish financial sector - meant a consolidation and standardisation of the provisions regarding financial regulation from all the existing financial acts into one comprehensive financial regulation act. The various types of financial activities are now subjected to standardised regulatory provisions.

The Financial Services Act regulates i.a. the following areas: Best Execution provisions, professional secrecy and conveyance of customer information, management provisions, accounting provisions and regulation, including the formation of a Financial Services Council.

The new Financial Services Council has been given the following assignments:

- To make decisions in certain regulatory questions,
- To advise the Danish Financial Supervisory Authority before it issues executive orders and
- To assist the Danish Financial Supervisory Authority in its information activities.

In addition, work continues on proposals put forward by the European Commission regarding new regulatory rules that are expected to be worked into the Danish financial legislation in the next few years.

## Mortgage Credit Legislation

### *Legal amendments*

The Danish Mortgage Credit Act was amended in May 2001 and in February 2002. The former amendment i.a. gave the mortgage banks access to use internal models for capital adequacy purposes in the calculation of market risk. The latter amendment raised the lending limit for newly built, subsidised homes.

Furthermore, a Bill has been put forward to amend the Danish Mortgage Credit Act, which is being heard by the Folketinget. The new government has thus proposed to cancel the system of publicly appointed representatives on the boards of directors of certain types of financial companies, including mortgage banks.

Under the auspices of the Danish Financial Supervisory Authority, a committee has been set up, which is expected to put forward certain amendments to the Danish Mortgage Credit Act in the longer term. The committee is working with a detailed analysis of the possibilities and consequences of permitting the mortgage banks to a large extent to grant loans against public guarantee and loans to so-called societal investments (infrastructure projects etc.). It is part of the mandate of the committee that there is to be no deterioration of the status of Danish mortgage bonds as especially secure, so-called gilt-edged securities.

## *Agriculture*

In relation to loans on agricultural properties, the question has been solved regarding the mortgage-backed security given to the mortgage banks in connection with loans on circulating chattels under joint farming agreements, just as a new and more effective procedure has been implemented for the passing-on of information to the mortgage banks about the sale of milk quotas.

## *Statistics*

Like the financial sectors in the other EU countries, the Danish financial sector is participating in the statistics co-operation, reporting financial statistics to the European Central Bank. Apart from balance sheet statistics, the reporting also comprises a new set of interest rate and yield statistics. Realkreditrådet participates in a number of working parties in Denmark's Nationalbank in connection with the implementation of the statistics.

## Capital Adequacy Requirements

In early 2001, both the Basle Committee and the European Commission put forward hearing documents about new capital adequacy requirements. The new capital adequacy requirement rules aim to achieve a better match between the risk on the assets and the corresponding capital adequacy requirements. Denmark commented in May 2001 on the hearing documents in a joint, national hearing including both the authorities and the entire financial sector.

After the expiry of the deadline for comments, work has continued with the new rules with the purpose of presenting both a new hearing document and also proposals for a new Directive. In the continued work, the Basle Committee put forward new working documents in a number of areas in the autumn of 2001.

Realkreditrådets primary area of interest in the proposals for new capital adequacy requirement rules is the determination of capital adequacy requirements in connection with mortgage loans. Realkreditrådet believes that the present proposals do not to a sufficient degree take the risk reducing effect of mortgage collateral into consideration.

In December 2001 the Basle Committee postponed the date for the presentation of a new hearing document. The postponement is explained by the fact that the Committee wants to make yet another impact study of the proposed rules on the capital adequacy requirements of credit institutions. The final version of the new Basle rules is still planned to be published in 2002 so that they may come into force in 2005.

## Consumer Relations

### *The European Code of Conduct for Home Loans*

On 5 March 2001, the voluntary agreement about The European Code of Conduct for Home Loans was signed in Brussels by the European consumer organisations and i.a. the European Mortgage Federation (EMF), which is the trade organisation of the European mortgage credit sector.

The rules and regulations of the Code of Conduct are the result of more than three years of negotiations between European lenders and consumer organisations, after the EMF took the initiative to draw up the Code of Conduct in 1997.

All Danish mortgage banks that grant loans to owner-occupied homes signed the Code of Conduct on 5 September 2001.

#### *The consumer credit directive*

In June 2001, the European Commission submitted a discussion document about amendments to the consumer credit directive for consultation. The directive is i.a. aimed at secure adaptation to the new, European market conditions and to expanding the area of use of the directive.

#### *Penalty rates in connection with overdue payments*

In June 2001, the Danish Parliament (Folketinget) passed an amendment on the Act on penalty rates in connection with overdue payments etc. according to which an upper limit was introduced for reminder fees and reminding letters in consumer credit situations. The amendment came into force on 1 July 2001.

#### *Consumer protection in the EU*

In October 2001, the European Commission issued a discussion document in the form of a "green book" on consumer protection in the EU. The "green book" discussed future methods of regulation in consumer policy matters.

#### *Distance contracts for financial services*

In the autumn of 1998, the European Commission put forward a draft directive regarding distance contracts for financial services to consumers. A revised draft directive was put forward in the autumn of 1999, and the negotiations went on until the end of 2001. The proposal appears to be in compliance with the Danish points of view.

#### *Price guide*

In 2001, Realkreditrådet decided to publish a "Price guide" showing the prices of mortgage loans on its own homepage. The "Price guide" will be updated twice yearly.

## The Danish Securities Market

In April 2001, an amendment to the Danish Act on Securities Trading Etc. came into force. The amendment has i.a. led to a tightening of the rules concerning insider dealing and price manipulation. It is expected that the Act will be amended again in 2002, i.a. with a view to clarifying the division of competencies in connection with the Best Execution rules. The reason is that today the financial companies are being regulated by both the financial Acts and by the Best Execution rules laid down in the Marketing Act, which has been creating problems in relation to the issuance and interpretation of rules and regulations in the area.

#### *Market conventions*

With effect from 8 February 2001, the trading and drawing regulations for Danish bonds were adjusted to international standards. The adjustments consist in a change in the interest convention to actual/actual, the cancellation of the ex-coupon period, the introduction of mathematical drawing of bonds, and the split-up of bonds into units of DKK 0.01 or 1 eurocent.

#### *EU regulation*

As a follow-up to the financial action plan, the European Council set up a group of economic advisers chaired by Mr. Alexandre Lamfalussy in July 2000. Based on the recommendations

of the economic advisers' report dated February 2001, suggesting a speedier legislative process in the EU, efforts regarding the harmonisation and regulation of an integrated European securities market have intensified. This is reflected in a number of draft directives concerning i.a. prospectuses, market abuse and the taxation of interest income; at the same time work is going on both in the EU and in Denmark to implement Best Execution rules for securities traders.

Realkreditrådet is constantly keeping abreast of the proposed directives and takes its starting point in the characteristic features of the Danish mortgage bond market, including the market making activities that are taking place, and that the issuance of mortgage bonds is typically taking place on tap. At the same time, Realkreditrådet is pleased to note that efforts are being made to harmonise rules of Best Execution for securities traders with a view to creating the conditions for increasing cross-border activities in the securities business. However, Realkreditrådet questions whether the coming rules will have to comprise the borrowers in the mortgage banks, as these may not be characterised as investors as such.

### *Best Execution*

In May 2001, the Danish Securities Council issued an executive order on Best Execution that came into force on 1 December 2001. The rules apply to all securities traders and contain requirements about information to customers in both terms of business and settlement notes about trading forms etc. in connection with securities transactions. In addition, the order contains rules regarding the settlement of transactions.

### *The Copenhagen Stock Exchange*

The Copenhagen Stock Exchange has considered carrying out an IPO, which should be seen in the light of the international trends in the stock exchange markets. Furthermore, the Copenhagen Stock Exchange and the other Nordic stock exchanges in the stock exchange co-operation NOREX have been considering establishing a Nordic, central counterpart.

### *The Danish Securities Centre*

Also in the Danish Securities Centre, the possibilities of Nordic consolidation have been under consideration, and like the stock exchanges, the Danish Securities Centre and the other Nordic securities centres have initiated a project focusing on the establishment of a Nordic, central counterpart.

## The Danish Property Market

### *Market trends*

The total number of building starts in 2001 was slightly lower than in 2000, which is due to the slower growth in the Danish economy.

In 2001, prices of owner-occupied homes continued to rise like in previous years. For single family and terraced houses, the growth rate has been between six and 12 per cent since 1995. Prices have been rising the most in the metropolitan area, viz. by about 80 per cent since 1995, whereas prices for the country as a whole have risen by just below 48 per cent in the same period.

Average prices of owner-occupied flats have risen more than single family and terraced houses, and the annual growth rate has been between 10 and 15 per cent since 1995. Also

here, price increases have been highest in the metropolitan area, viz. well over 120 per cent since 1995, while prices of owner-occupied flats in Denmark as a whole went up by around 80 per cent over the same period.

For a couple of years, the number of traded owner-occupied homes per year amounted to about 55,000-65,000. This was also true for 2001, when around 37,000 single family and terraced houses, around 16,000 owner-occupied flats and 4,000 weekend cottages changed hands.

#### *Taxation of owner-occupied homes*

The taxation of owner-occupied homes was discussed in 2001 based on a report from the economic advisors published by the Council of Economic Advisers. Realkreditrådet was in agreement with the target set out in the report about an effective housing market with a balance between the individual sectors. However, Realkreditrådet has pointed out that the target should be implemented by making use of reasonable transitional arrangements in the areas of housing and taxation, just as the use of the potential proceeds to introduce possible tax reliefs would require a deliberate clarification of the situation. It was also pointed out that the economic trends do not suggest increased taxation of the owner-occupied homes sector. Subsequently, Realkreditrådet has contacted the Minister of Taxation and put forward several concrete proposals for an amendment of the investment gains legislation, which would secure a symmetrical taxation of loans to which financial instruments and loans are attached, when the financial instruments are built into the underlying bonds.

#### *The Danish Land Registration Tax Act*

The Danish Land Registration Tax Act of 2000 had an unintended effect in relation to some re-mortgage situations. After the objections put forward by Realkreditrådet, the Act was amended in 2001, but unfortunately not with retrospective effect. This meant extra expenses for those borrowers who entered into such re-mortgaging agreements in the period between 1 January 2000 and 5 April 2001.

#### *The Association of Danish Estate Agents' new standard purchase agreement*

From 1 January 2002, the Association of Danish Estate Agents changed its previous standard purchase agreement, which was from 1997. Basic changes have been made to the structure of the purchase agreement, just as a number of changes of a more fundamental nature have been made regarding consumer protection, price risk in connection with funding, FPA provisions, guarantees and depositing.

#### *The Danish Register of Real Property Data*

An amendment to the Danish Register of Real Property Data Act in July 2001 established a new scheme for the transfer of real property data from the Danish Register of Real Property Data. The amendment has led to a liberalisation of the access to information from the Register of Real Property Data.

## Subsidised Housing Projects

#### *Mortgage bank funding of loans allowing Copenhagen to reverse land sales*

An amendment to the Act on Non-Profit Housing in 2000 made it possible to grant mortgage loans to housing associations who wish to purchase their way out of the reversion right re-

served by the municipality of Copenhagen in respect of properties, which entitled the municipality to repurchase sites and buildings at the original selling prices applying in the 1930s and 1940s. In 2001 the mortgage banks granted such loans to a number of housing associations in the municipality of Copenhagen totalling DKK 1.8 bn (equal to €0.2bn - the following figures will be in €).

Since the end of the 19<sup>th</sup> century, a number of local governments in connection with sale of land reserved the right to repurchase sites and buildings at the original selling prices; the rights would stipulate that after a period of time (usually 70-100 years) the local government would have the right to repurchase sites and buildings at a price that would usually correspond to the original selling price. In March 2000, the Federation of Non-Profit Housing Associations in Denmark and the Municipality of Copenhagen made an agreement in regard to non-profit homes in Copenhagen (approximately 37,000 homes), according to which the housing associations in Copenhagen would be entitled to reverse the repurchase right at a total price of €0.2bn. At the same time, it was made legal for the housing associations to take out mortgage loans to fund the repurchase amounts. All these loans were paid out to the borrowers at the end of 2001.

#### *Reduction of the capital base*

The municipal and county capital base required in connection with the establishment of new non-profit homes was reduced via an amendment from 14 to seven per cent of the purchase sum, and the mortgage loan limit has been raised correspondingly from 84 to 91 per cent, with effect from 15 June 2001 up till and including 14 June 2004.

#### *The sale of non-profit homes*

The government has set up a committee with the task of preparing a reform that allows the occupants of non-profit homes to take over their homes on an owner-occupier or a co-operative basis. The work of the committee must be concluded no later than 1 January 2003.

#### *Co-operative homes*

The Ministry of Economic and Business Affairs has set up a committee to investigate i.a. the possibility of accepting shares in co-operative housing associations as security for loans. The way the rules are today, this is not possible, if it is stipulated in the articles of the association that the shares cannot be subjected to execution or mortgaging.

An amendment from the end of February 2002 changed the funding rules for private, subsidised co-operative homes. Thus the current repayment subsidies to mortgage loans was replaced by a one-off subsidy of 10 per cent of the purchase sum (however, with a maximum amount). At the same time, the quota for the establishment of such homes was raised from 1,000 to 1,800 per year.

#### *Housing for the elderly*

At the end of February 2002, a Bill was put forward to improve the conditions of independent housing institutions for the elderly. The Bill means i.a. that certain independent housing institutions for the elderly may build or re-build existing housing facilities etc. under differentiated funding rules so that they become more up-to-date. Under the Bill, government and municipal subsidies may be obtained in the form of basis capital, repayment subsidies and guarantees to independent housing institutions for the elderly and to independent nursing home centres, both in connection with the rebuilding of nursing homes and the building of new housing facilities for the elderly/nursing home flats.

The differentiated funding rules shall apply in the period 2002 - 2005.

## Market Trends

### *Lending activities*

In 2001, the gross loan volume of the Danish mortgage banks totalled €45.1bn against €24.8bn in 2000. Re-mortgaging activities meant that almost 50 per cent of the gross loan volume in all of 2001 was granted in the fourth quarter. The main reason for the high re-mortgaging activity was the low yield level caused by the easier monetary policy following the terrorist attack on the USA on 11 September.

The net loan volume rose from €6.7bn in 2000 to €10bn in 2001. The positive net loan volume means that the total remaining bond debt is up from €153.9bn in 2000 to €164.1bn in 2001.

Adjustable rate mortgages gained ground in 2001. Thus the gross volume of loans granted as adjustable rate mortgages rose from 38 per cent in the first quarter to just below 58 per cent in the fourth quarter, and for 2001 as a whole, the gross loan volume granted as adjustable rate mortgages totalled €22.5bn against €6.5bn in 2000. Also euro loans have taken an increasing share, and the gross loan volume granted in euro thus amounted to €6.1bn in 2001. By far the majority of euro loans is granted as adjustable rate mortgages.

The lending activities of the Danish mortgage banks in the period 1999 - 2001 are shown in [table 1](#).

*Table 1. Loans granted by Danish mortgage banks. 1999 - 2001*

€bn	1999	2000	2001
<b>Total gross loan volume</b>	<b>42.9</b>	<b>24.7</b>	<b>45.0</b>
- Granted as adjustable rate mortg.	-	6.4	22.5
Transfers and prepayments	-31.1	-13.5	-30.1
<b>Net volume of new loans</b>	<b>11.8</b>	<b>11.3</b>	<b>15.0</b>
Ordinary repayments	-4.4	-4.6	-5.0
<b>Net loan volume</b>	<b>7.4</b>	<b>6.7</b>	<b>10.0</b>
- Granted as adjustable rate mortg.	-	5.3	19.8
<b>Remaining bond debt</b>	<b>147.2</b>	<b>153.9</b>	<b>164.1</b>

*Note: Figures in DKK have been converted to € by the rate 1€ = 7,42 DKK.*

*Source: Realkreditrådet*

Divided into property categories, the bulk of loans granted by the mortgage banks goes to owner-occupied homes, and therefore this loan segment is one of the most important business areas. We refer to [table 2](#) for the distribution of loans granted on property categories in the period 1999 - 2001.

[Table 3](#) shows that there are significant differences in the degrees to which funding via adjustable rate mortgages takes place in the individual property categories. Just below 79 per cent of all new loans granted to subsidised homes is granted as adjustable rate mortgages, which must be seen against the backdrop that the government determines the loan type to be used for such projects. When it comes to owner-occupied homes and weekend cottages, the share is just below 46 per cent.

Table 2. Loans distributed on property categories. 1999 - 2001

€bn	1999		2000		2001	
	Gross volume	Remaining bond debt	Gross volume	Remaining bond debt	Gross volume	Remaining bond debt
Homes						
Subsidised	1.3	20.6	2.3	21.1	1.9	21.5
Private rental	2.6	8.8	1.7	9.6	2.7	10.4
Owner-occupied	25.5	82.6	14.9	87.2	29.0	95.0
Business property						
Agriculture	6.4	17.6	3.2	18.0	6.2	18.1
Manuf. & Manual	2.0	5.1	0.7	5.1	1.3	5.2
Office & Shop	4.4	10.2	1.7	10.4	3.2	11.1
Other properties	0.7	2.4	0.3	2.5	0.7	2.8
<b>Total</b>	<b>42.9</b>	<b>147.2</b>	<b>24.7</b>	<b>153.9</b>	<b>45.0</b>	<b>164.1</b>

Note: Figures in DKK have been converted to € by the rate 1€ = 7,42 DKK.

Source: Realkreditrådet

Table 3. Adjustable rate mortgages' share of total volume of loans on property categories

€bn	2000	2001	2000			2001		
			Share of gross loans as adjustable rate loans			Share of gross loans as adjustable rate loans		
	Gross loans		Total	DKK	Euro	Total	DKK	Euro
Subsidised homes	2.3	1.9	9.4	9.4	0.0	10.6	10.6	0.0
Private rental	1.7	2.7	4.2	3.4	0.7	6.2	4.5	1.8
Owner-occupied and weekend cottage	14.9	29.0	2.2	2.1	0.2	6.2	5.2	1.0
Agriculture	3.2	6.2	4.0	2.1	1.8	7.5	1.8	5.7
Manuf. & manual industries	0.7	1.3	6.1	4.8	1.3	8.9	6.1	2.8
Office & shops	1.7	3.2	4.0	3.2	0.8	7.1	4.9	2.1
Other types	0.3	0.7	3.0	2.4	0.6	7.3	3.2	4.1
<b>Total</b>	<b>24.7</b>	<b>45.0</b>	<b>3.5</b>	<b>3.0</b>	<b>0.5</b>	<b>6.7</b>	<b>4.9</b>	<b>1.8</b>

Note: Figures in DKK have been converted to € by the rate 1€ = 7,42 DKK.

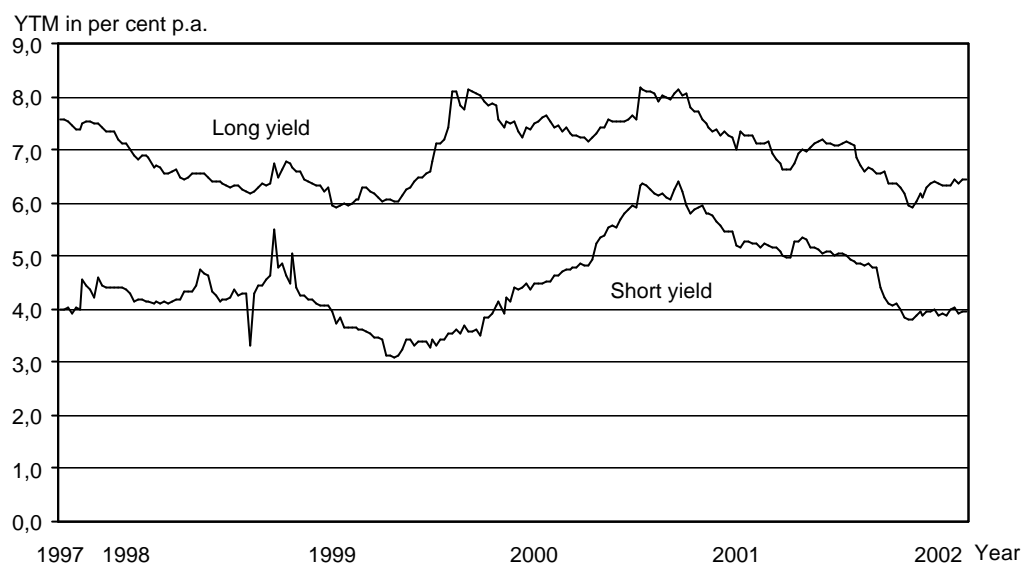
Source: Realkreditrådet

### The development in yields

The general fall in yields throughout 2001 resulted in quite a large re-mortgage volume. At the same time, the widening yield gap between the long and the short yields in the fourth quarter meant that home owners were able to profit from re-mortgaging fixed-interest loans with adjustable rate loans, which has led to more widespread use of adjustable rate mortgages as described above.

The development in yields for long and short mortgage bonds in the period 1997-2002 is shown in figure 1.

*Figure 1. The development in yields for long and short mortgage bonds – the mortgage rate*



Note: For additional information about the calculation of the mortgage rate, please check the home page of Realkreditrådet.

Source: Realkreditrådet

### *The Danish bond market*

In 2001, the nominal sale of bonds on the Copenhagen Stock Exchange totalled € 738.2bn – a fall in turnover by around 2 per cent from 2000 to 2001.

However, the turnover in mortgage bonds showed an increase of just below 21 per cent over 2000, and in nominal terms, the turnover amounted to € 390.4bn. It was the first time for many years that mortgage bonds accounted for the bulk of the turnover in the Danish bond market. Government bonds and Treasury Bills in contrast suffered a significant drop in turnover from 2000 to 2001 of 26 per cent, and the nominal turnover here reached € 305.2bn.

The total volume of bonds in circulation increased by almost 10 per cent from 2000 to 2001, and at the end of 2001 it amounted to around €296.2bn, cf. [table 4](#).

*Table 4. Volume of bonds in circulation. End year 2001*

€bn	Mortgage bonds	Government securities	Other bonds	Total
	194.6	84.6	18.6	297.8
Distribution in per cent				
Financial institutions	5.3	3.4	5.0	4.7
Insurance and Pension	3.4	1.6	2.7	2.8
Public sector	0.9	3.0	0.5	1.5
Other trades	0.9	0.7	0.4	0.8
Households	0.9	0.3	3.6	0.9
Foreign investors	1.5	4.3	0.7	2.3
N.a.	0.4	0.4	0.3	0.4

*Note: The table comprises bonds listed on the Copenhagen Stock Exchange and registered with the Danish Securities Centr. Figures in DKK have been converted to € by the rate 1€ = 7,42 DKK.*

*Source: Statistics Denmark*

In 2001, mortgage bonds had a volume in circulation of €194.5bn, which is an increase by 17 per cent compared with 2000. Seen in relation to the total volume of bonds in circulation, mortgage bonds account for a share of 65 per cent.

Government bonds totalled 28 per cent of the volume of bonds in circulation, corresponding to a value of €84.5bn.

In the past few years, the volume of government bonds in circulation has been steadily decreasing, which means that the government debt has been steadily reduced.

Financial institutions, insurance and pension companies and the public sector hold the vast majority of Danish bonds. Between them, these investor groups held 67 per cent of all Danish bonds at the end of 2001, cf. [table 4](#).

At the end of 2001, foreign investors held a total portfolio of Danish bonds of 17 per cent like the year before. As regards mortgage bonds, however, foreign investors increased their holdings by 2 percentage points to 11 per cent.

#### *Financial statements*

Like in previous years, the financial statements of the Danish mortgage banks showed handsome profits. The overall profit for 2001 amounted to €0.7bn, which is an increase by €0.05bn compared with 2000.

#### *Rating*

In 2001, the credit rating agency Moody's made a general upgrading of the mortgage bonds issued by those Danish mortgage banks that had already obtained a rating. This means that today Danish mortgage bonds have a highly satisfactory rating at the level AAA - AA2 with AAA as the highest possible rating.

In its recent study, published in May 2002, Moody's says "that Danish mortgage bonds are very strong and very low-risk financial instruments".

## On-line Registration and Digital Signatures

In its report from 2000, the Ministry of Justice committee on on-line land registration concluded that at that time it would entail too high a degree of technical uncertainty to introduce digital signatures in the land registration system, and hence also that it would be a highly uncertain project to transform the entire system into one on-line system.

However, the development in the IT area means that now the prerequisites of this conclusion from 2000 are outdated. The security problems pointed out in the report have now been solved, and it therefore seems to be time now to begin to establish a digital land registration system. This ought to happen along with the introduction of digital administration in the communication between public authorities and citizens. The investments that the public sector will have to make in digitalisation will clearly be offset by advantages to all parties with an interest in the land registration system.

## Education

2001 saw a number of new initiatives in the field of education. Together, the development of the new financial trainee programme, the financial economist programme and the restructuring of the continuing education and further education programmes mean that the educational structure is changing along with the overall goal of making the financial education programmes more flexible and more coherent.

## Information Activities

Twice a year, Realkreditrådet publishes its Price Guide that provides information about the costs involved in taking out mortgage loans. Quarterly press releases are sent out to provide information about lending activities and the development in property prices. Each month conversion rate tables are issued to be used by loan providers, and every two weeks the average target for mortgage rates is published. In addition to this, Realkreditrådet issues a number of publications etc., and in spring 2002 it launched its new website.

# Realkreditrådet – The Association of Danish Mortgage Banks

## Formation

Realkreditrådet was set up on 3 March 1972 and serves as the trade organisation of Danish mortgage banks.

In 1972, Realkreditrådet took over the trade co-operation from three associations - "Kreditforeningernes Stående Fællesudvalg" (the Standing Joint Committee of Danish Mortgage Credit Institutions), "Hypotekforeningernes Stående Fællesudvalg" (the Standing Joint Committee of Danish Third-Mortgage Institutions) and "Fællessekretariatet for de Obligationssudstedende Fonde og Finansieringsinstitutter" (the Joint Secretariat of Bond-Issuing Foundations and Finance Institutions) - of which the oldest association, Kreditforeningernes Stående Fællesudvalg, was set up in 1887.

## Members

The member institutions of Realkreditrådet grant loans against mortgages on real property based on the issuance of mortgage bonds; they cover 100 per cent of the mortgage finance market regulated by the Danish Mortgage Credit Act.

The Danish Mortgage Credit Act falls within the area of responsibility of the Danish Minister for Economic and Business Affairs.

Finanstilsynet - the Danish Financial Supervisory Authority - that falls within the area of responsibility of the Danish Minister for Economic and Business Affairs, supervises all mortgage banks.

When the report was written, the following eight mortgage banks were members of Realkreditrådet:

- BRFkredit a/s
- DLR Kredit A/S
- FIH Realkredit A/S
- Landsbankernes Reallånefond
- Nordea Kredit Realkreditaktieselskab
- Nykredit A/S
- Realkredit Danmark A/S
- Totalkredit A/S

*BRFkredit* concentrates its lending activities on owner-occupied homes, including weekend cottages, on non-profit and private homes for rent, on office and shop properties and certain industrial properties.

*DLR Kredit* grants loans to agricultural, horticultural and forestial properties etc. And to private rental homes and private co-operative housing societies.

*FIH Realkredit*, which is a subsidiary of Finansieringsinstituttet for Industri og Håndværk (The Manufacturing and Manual Industries Finance Corporation), concentrates its activities within the areas of manufacturing and manual industries etc.

*Landsbankernes Reallånefond* primarily grants loans to large-scale construction projects, mainly publicly subsidised projects.

*Nordea Kredit*, which is part of the Nordea Group, grants loans to all property categories, except for some types of publicly subsidised projects.

*Nykredit*, which has been formed over the years through mergers with other institutions based on associations of borrowers, will grant loans to all property categories.

*Realkredit Danmark*, which has also been formed via mergers with other institutions, is part of the Danske Bank Group and grants loans to all property categories.

*Totalkredit*, which was originally called Provinsbankernes Reallånefond (the Provincial Banks' Mortgage Fund), grants loans to owner-occupied homes including weekend cottages.

All mortgage banks will grant loans all over Denmark, just as some of the mortgage banks have made use of the possibility of granting loans abroad.

Ever since Realkreditrådet was set up in 1972, the number of members has been varying along with the changes made to the framework for the activities of the member institutions and with the market situation. Also in the year 2001 there were changes to the number of members when Danske Kredit and BG Kredit merged with Realkredit Danmark as part of the merger between Danske Bank and RealDanmark.

## Management

The highest organ of Realkreditrådet is the Executive Committee. The Executive Committee consists of up to 10 members who are appointed by the member institutions of Realkreditrådet to serve for a period of two years, and who will to some extent reflect the size of the member institutions. The Executive Committee of Realkreditrådet had the following members when this report was written:

*President:*

Mr. Sven Holm, CEO, Realkredit Danmark A/S

*Vice-President:*

Mr. Mogens Munk Rasmussen, Group Chief Executive, Nykredit A/S

*Other members:*

Mr. Sven A. Blomberg, CEO, BRFkredit a/s

Mr. Carsten Tirsbæk Madsen, Managing Director, BRFkredit a/s

Mr. J. Fløysturp Jensen, CEO, DLR Kredit A/S

Mr. Erling Saaby Nielsen, CEO, Nordea Kredit Realkreditaktieselskab

Mr. Peter Engberg Jensen, Group Managing Director, Nykredit A/S

Mr. Mogens Holm, Managing Director, Realkredit Danmark A/S

Mr. Niels Tørslev, CEO, Totalkredit A/S

Secretariat

Realkreditrådet has a staff of 25 and is headed by Mr. Torben Gjede, Director General.

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