MORTGAGE FINANCING IN DENMARK

REALKREDITRÅDET

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Introduction

In Denmark the financing of real property and other long-term fixed investments primarily takes place via mortgage banks. The Danish mortgage-credit market is based on the efficient and inexpensive extension of credit based on the following characteristics:

- the borrower's real property is mortgaged as collateral for the loan;
- the loan is long-term;
- loans are granted within the framework of the Mortgage Credit Act;
- effective interest rates are market-determined and transparent;
- the loans are financed by the issue of bonds;
- bond investors are fully aware of the security for the bonds, which is based on mortgages on real property, the legislative framework and the solvency of the mortgage bank,
- in the 200-year history of mortgage credit in Denmark no bond holders have suffered losses due to the default of a mortgage bank.

This publication describes all important elements of the Danish mortgage credit system. It is also available in Danish. Also available in English is "Danish Mortgage Bonds" with more detailed information on Danish mortgage bonds. These publications and further information can be found at the Web site of the Association of Danish Mortgage Banks at www.realkredit-raadet.dk or can be ordered from the Association of Danish Mortgage Banks, which is the trade organisation of the mortgage-credit sector.

Torben Gjede

Director General

The Association of
Danish Mortgage Banks
November, 1999


KREDITKASSEN FOR HUSEIERNE

I KJØBENHAVN

ET TUSINDE KRONER

1000 Kr.

The mortgage credit system

The mortgage banks have gained a central position in the Danish economy thanks to their long-standing activity as financial enterprises specialising in the granting of long-term loans against mortgages on real property.

As a result of the mortgage bonds' important dual role as effective funding instrument and an attractive placement for investors the bonds play a key role in the Danish and international capital markets. This position is based on the development and adjustment of the mortgage credit system during its evolution over more than 200 years.

History of the mortgage credit system

The first mortgage bank in Denmark was established in 1797 under the name of Husejernes Kreditkasse i København. This was a result of the Great Fire in Copenhagen in 1795 when 900 properties were razed to the ground and many others were damaged. The fire damage was assessed at 4.5 million rix dollars of which only half could be covered by Københavns Brandforsikring, the only fire insurance company in Copenhagen. The Danish state had to step in and participate in the reconstruction of Copenhagen.

Husejernes Kreditkasse was the outcome of the investors' initiative. The background was the existence of an interest rate regulation stipulating an interest rate of 4 per cent as the maximum. The investors considered security to be the most important element in view of this interest ceiling and the substantial demand for loans. Security was excellent for loans granted by Kreditkassen, since the borrowers were subject to joint and several liability.

The first Mortgage Credit Act was adopted in 1850 in order to enhance access to private borrowing. In contrast to Husejernes Kreditkasse, mortgage associations were associations of borrowers subject to joint and several liability. These associations could grant loans for up to 60 per cent of the value of a property.

However, the mortgage associations were unable to meet the full demand for loans, which led to the establishment of second mortgage institutions towards the end of the 19th century. These institutions granted supplementary loans, to bring total lending up to 75 per cent of the property value (second mortgages). However, supervision of the second mortgage institutions was not established until 1936 when an Act on Second Mortgage Institutions was adopted.

After World War II the mortgage associations and second mortgage institutions pursued very restrictive lending policies. Demand arose for further organised lending to finance the housing market. Against this background special mortgage funds (granting third mortgages) were established in 1959. In contrast to mortgage associations and second mortgage institutions the new funds did not impose joint and several liability on the borrowers.

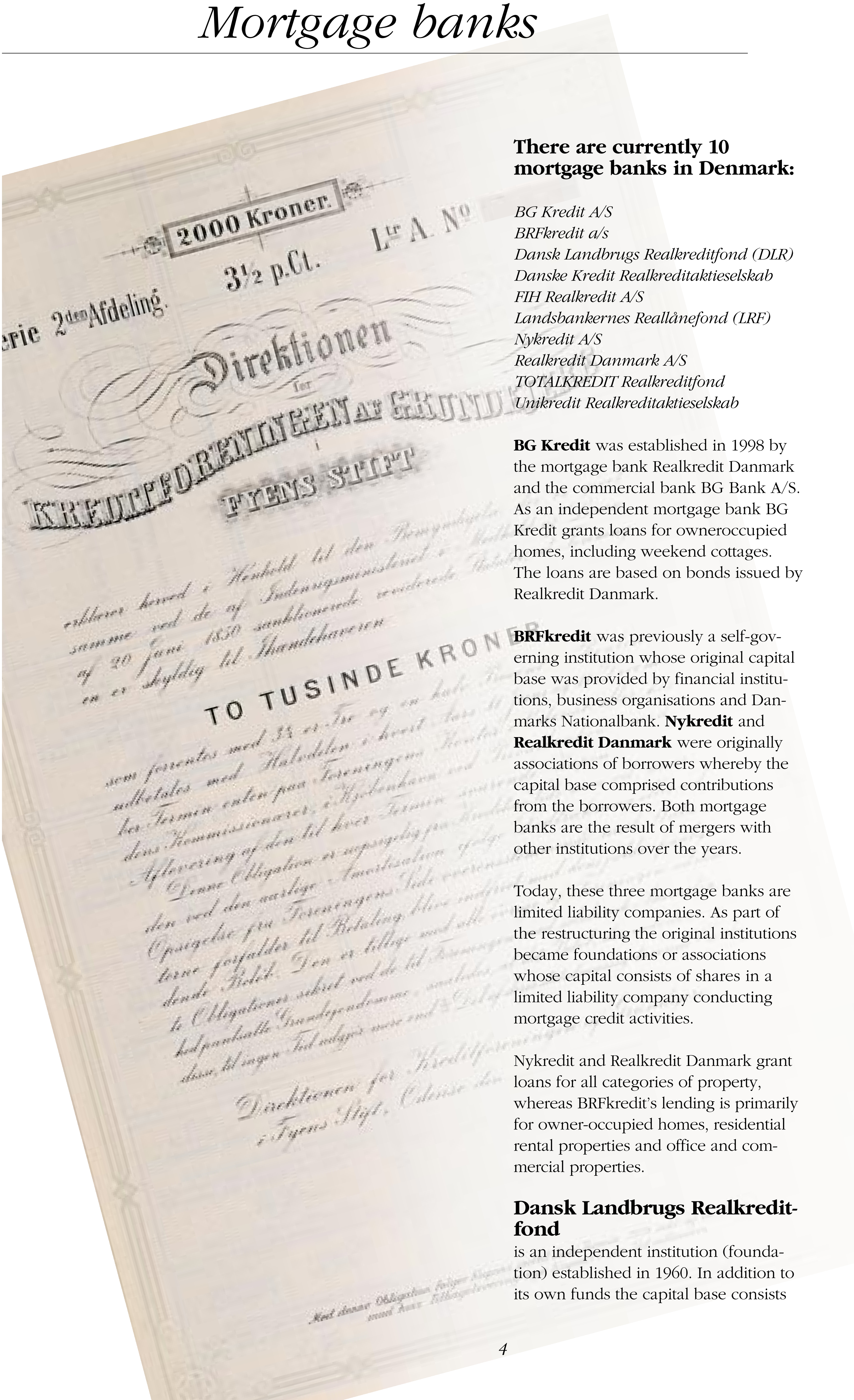
The implementation of the Mortgage Credit Act of June 1970 entailed some major adjustments. Lending ceilings were lowered, repayment periods were reduced and restrictions were introduced on access to mortgage credit financing. The most important element was the introduction in Denmark of a comprehensive mortgage system, so that borrowers did not have to raise loans from several mortgage institutions. Moreover, the number of mortgage associations and second mortgage institutions were reduced in order to provide for nationwide mortgage institutions. The result was a wave of mergers. In 1972 only four mortgage associations granted loans for residential properties, of which Kreditforeningen Danmark (now Realkredit Danmark A/S) and Byggeriets Realkreditfond (now BRFkredit a/s) were nationwide, while Jyllands Kreditforening and

Forenede Kreditforeninger were regional (they merged in 1985 under the name of Nykredit). There were also special mortgage institutions for agriculture and industry.

The following years saw frequent amendments to the Mortgage Credit Act. The next major comprehensive amendment took place in 1989, among other things to comply with a number of obligations regarding the implementation of EC directives, including the 2nd Banking Harmonisation Directive of 1989 on the taking up and pursuit of the business of credit institutions. The Act provided for the establishment of new mortgage banks as limited liability companies, while existing mortgage institutions could be restructured as limited liability companies. As a consequence of this Act all mortgage institutions irrespective of organisation form are named mortgage banks. Today, most mortgage banks are limited liability companies.

The most recent extensive amendment of the Mortgage Credit Act took place in 1998. Among other things it simplified lending provisions, while the previous special privilege for Dansk Landbrugs Realkreditfond to mortgage agricultural properties within the range of 45-70 per cent of the property value lapsed. The current regulatory requirements of mortgage banks are described in further detail in "Mortgage banks" and "Lending by mortgage banks".

Mortgage banks



There are currently 10 mortgage banks in Denmark:

BG Kredit A/S
BRFkredit a/s
Dansk Landbrugs Realkreditfond (DLR)
Danske Kredit Realkreditaktieselskab
FIH Realkredit A/S
Landsbankernes Reallånefond (LRF)
Nykredit A/S
Realkredit Danmark A/S
TOTALKREDIT Realkreditfond
Unikredit Realkreditaktieselskab

BG Kredit was established in 1998 by the mortgage bank Realkredit Danmark and the commercial bank BG Bank A/S. As an independent mortgage bank BG Kredit grants loans for owneroccupied homes, including weekend cottages. The loans are based on bonds issued by Realkredit Danmark.

BRFkredit was previously a self-governing institution whose original capital base was provided by financial institutions, business organisations and Danmarks Nationalbank. **Nykredit** and **Realkredit Danmark** were originally associations of borrowers whereby the capital base comprised contributions from the borrowers. Both mortgage banks are the result of mergers with other institutions over the years.

Today, these three mortgage banks are limited liability companies. As part of the restructuring the original institutions became foundations or associations whose capital consists of shares in a limited liability company conducting mortgage credit activities.

Nykredit and Realkredit Danmark grant loans for all categories of property, whereas BRFkredit's lending is primarily for owner-occupied homes, residential rental properties and office and commercial properties.

Dansk Landbrugs Realkreditfond

is an independent institution (foundation) established in 1960. In addition to its own funds the capital base consists of guarantees from commercial banks. Dansk Landbrugs Realkreditfond is a specialised mortgage bank which exclusively grants loans to finance agricultural, horticultural, forestry and other properties.

FIH Realkredit, established in 1995, is a limited liability company owned by Finansieringsinstituttet for Industri og Håndværk (FIH). FIH Realkredit specialises in mortgage loans for trade and industrial properties.

TOTALKREDIT Realkreditfond and **Landsbankernes Reallånefond** are independent institutions (foundations). Both were founded in 1959. TOTALKREDIT was established under the name of Provinsbankernes Realkreditfond. In 1971 the institutions stopped new lending activities and in 1990 Provinsbankernes Realkreditfond was reopened under the name of TOTALKREDIT. This mortgage bank grants loans for owner-occupied homes, weekend cottages and undeveloped sites. At the beginning of 1994 Landsbankernes Reallånefond was reopened. It grants loans primarily for major construction projects, mainly subsidised public construction. The capital base of both mortgage banks besides own funds comprises guarantees provided by commercial banks.

The mortgage banks founded as limited liability companies, **Danske Kredit** and **Unikredit**, were both established in 1993. They are wholly-owned by respectively Den Danske Bank and Unibank - Denmark's two largest commercial banks. Unikredit's lending is primarily for owner-occupied homes and agricultural properties, while Danske Kredit focuses on owner-occupied homes and commercial properties.

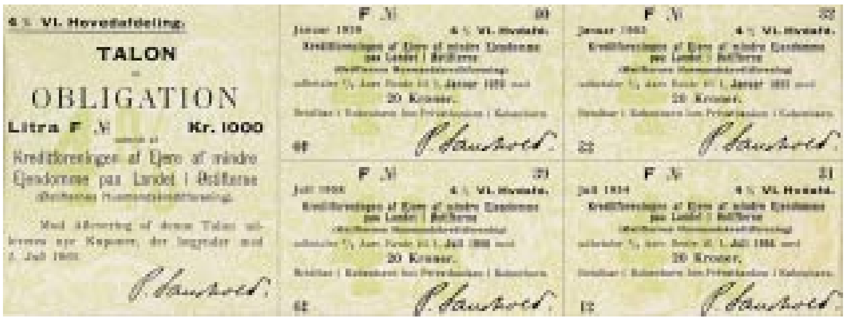
All 10 mortgage banks are members of the Association of Danish Mortgage Banks, which is the trade organisation established for the mortgage credit sector.

Table 1 shows key figures for the lending activities of the mortgage banks.

Table 1. Key figures for mortgage banks

DKK. billion	BG Kredit 1)	BRF-Kredit	DLR	Danske Kredit	FIH Realkredit	LRF	Nykredit	Realkredit Danmark	Total Kredit	Unikredit	Total
Gross lending											
1998	5.2	35.6	12.4	31.7	1.7	0.5	119.7	81.9	31.2	41.1	359.0
1997	-	22.7	7.1	18.1	1.1	0.2	81.9	65.4	17.1	26.3	239.8
Bonds in circulation, end of period											
1998	-	124.5	42.2	64.7	3.0	1.2	389.8	338.5	59.5	74.5	1,098.0
1997	-	120.4	40.7	51.0	1.9	0.9	380.6	321.5	44.5	55.2	1,016.9
Liable capital, end of period 2)											
1998	1.5	7.7	4.8	3.3	0.3	2.9	30.3	19.6	2.6	4.4	77.4
1997	-	7.3	4.4	2.6	0.3	2.8	29.0	21.5	2.2	3.3	73.4
Solvency ratio 3)			4)								5)
1998	56.6	12.9	12.8	10.6	14.6	263.6	13.5	11.5	10.8	11.8	13.1
1997	-	12.4	12.4	10.8	24.9	311.1	13.4	13.2	11.0	12.2	13.5

Source: The Association of Danish Mortgage of Banks.
1) BG Kredit commenced its lending activities in 1998, financed via bonds issued by Realkredit Danmark.
2) Including guarantee capital.
3) The solvency ratio is compiled as liable capital as a proportion of risk-weighted assets.
4) Proportion of capital base for issued bonds and other commitments of DLR. The statutory requirement is at least 10 per cent.
5) Average solvency ratio, excluding DLR.



4 % VI. Hovedafdeling.

TALON

OBLIGATION

Litra F № Kr. 1000

Kreditforeningen af Ejere af mindre Ejendomme paa Landet i Østifterne

F № 20 Kroner.

4 pCt. VI. Hovedafdeling.

Litra F. OBLIGATION

1000 Kroner	1000 dänische Kroner	1000 Danish Kroner
Kreditforeningen af Ejere af mindre Ejendomme paa Landet i Østifterne.	Bodenkreditverein von Eigentümern kleinerer Realitäten auf dem Lande in den Inselstiften.	the Credit Association of Proprietors of small landed Estates in the Islands of Denmark.
Renten 4 pCt. p. a. garanteret af den danske Stat.	Zinsen 4 v. H. jährlich vom dänischen Staate garantiert.	4 per cent yearly interest guaranteed by the Danish State.
Et Tusinde Kroner,	Ein Tausend dänische Kronen	One Thousand Danish Kroner

Kjøbenhavn, den

Legislation and supervision

Mortgage credit activities are governed by the Mortgage Credit Act. The Act defines mortgage credit activities as the granting of loans against registered mortgages on real property from capital obtained by issuing bonds equivalent to the loans.

The current Mortgage Credit Act and the executive orders issued pursuant to the Act provide a detailed regulatory framework for the activities of the mortgage banks. The principal concern behind these regulations is the security of the bonds.

Under the Mortgage Credit Act the mortgage banks are subject to supervision by the Danish Financial Supervisory Authority which is an independent agency under the Ministry of Economic Affairs. The Financial Supervisory Authority also supervises e.g. commercial banks and insurance companies. Dansk Landbrugs Realkreditfond is subject to special legislation and thereby separate supervision by the Development Directorate under the Ministry of Food, Agriculture and Fisheries.

The principal activity of the Financial Supervisory Authority vis-à-vis the mortgage banks is to safeguard the prudent pursuit of mortgage credit activities, thereby ensuring that the mortgage banks do not put their financial soundness at jeopardy.

It is therefore the task of the Financial Supervisory Authority to monitor compliance with the provisions of the Mortgage Credit Act and the appurtenant executive orders. This applies in particular to the provisions concerning valuation and the size of loans, capital requirements and the balance principle, as well as the placement of own funds. The balance principle is described in further detail in “Mortgage bonds”.

The Financial Supervisory Authority may order the rectification of any circumstances which are in conflict with the provisions of the Act and executive orders drawn up pursuant to the Act. Moreover, the infringement of a number of provisions is a criminal offence.

Solvency regulations

All Danish mortgage banks except DLR are subject to the EU directives on solvency ratio, capital adequacy and own funds. These directives are implemented in the Mortgage Credit Act.

Under the Mortgage Credit Act the liable capital of a mortgage bank must be at least 8 per cent of the mortgage bank’s risk-weighted assets, etc. Various capital elements are applied to compliance with the capital requirement, basically core capital and supplementary capital.

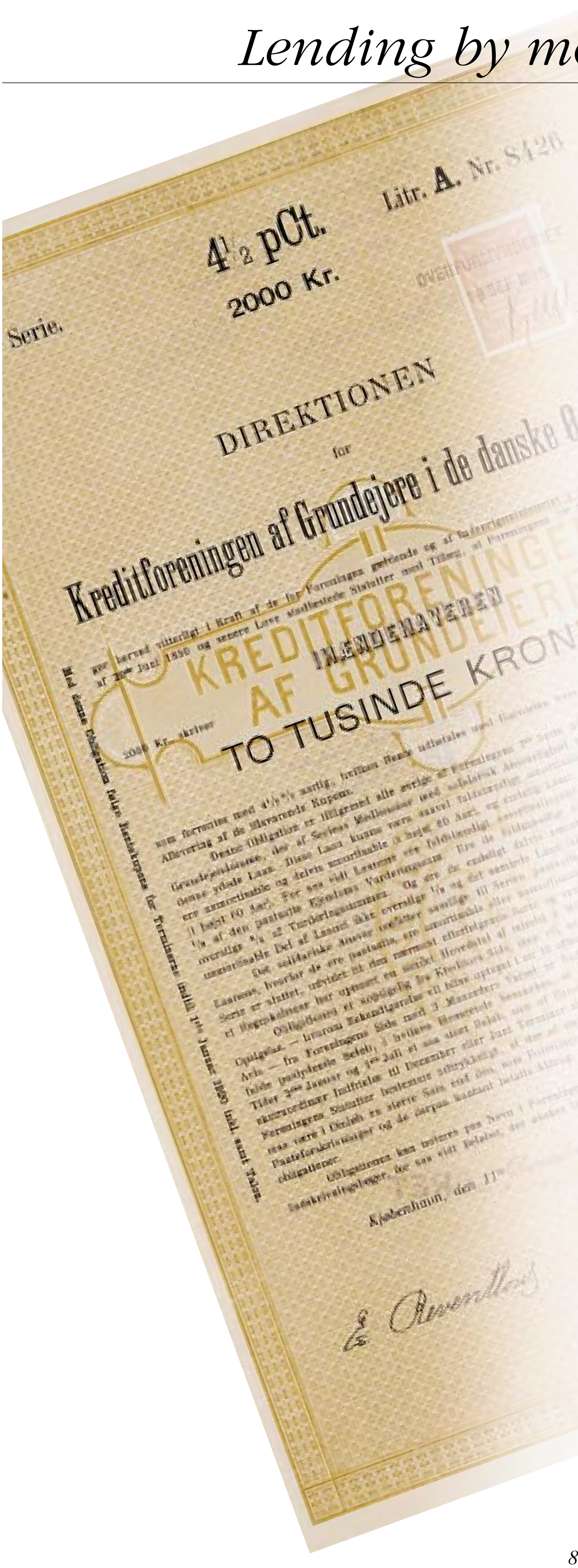
The capital requirement for a mortgage bank is calculated on the basis of a weighting of the bank’s assets and off-balance-sheet items, based on the credit risk associated with each asset.

Loans against mortgages on owner-occupied homes are weighted at 50 per cent since such loans are assumed to be twice as safe as other loans. Loans for trade and industrial properties and for agricultural properties are weighted at 100 per cent, while until January 1, 2006 the weighting of loans for office and commercial properties is 50 per cent, subject to certain assumptions.

Placement regulations

The Mortgage Credit Act sets out rules for the mortgage banks’ placement of their own funds. The capital must as a minimum be invested in stock exchange listed bonds at a market value equivalent to 60 per cent of the mortgage bank’s liable capital.

No rules apply to the investment of the remaining 40 per cent. These funds are normally invested in own bonds, government bonds, real property and shares.



Raising of loans

Mortgage loans are raised in various ways according to type, i.e. loans for new construction, loans for purchase of an existing property, loans for other purposes, or loans for remortgaging (refinancing).

The ongoing costs of new construction of real property during the construction phase will as a general rule be financed by a building loan from a commercial bank. The final financing after completion and inauguration of the building will be arranged via a mortgage bank.

Loans raised in connection with purchase of an existing property are often arranged via the real estate agent who handles the sale. Borrowers can approach the mortgage bank or an intermediary typically a commercial bank, directly with regard to loans for other purposes. Concerning mortgage banks which are subsidiaries of commercial banks or commercial bank affiliates the borrower must always contact a commercial bank to apply for a mortgage loan.

The inspection and valuation of the property prior to the submission of the loan offer are the basis for calculation of the lending value. The mortgage banks may undertake inspection and valuation themselves or commission external parties (usually real estate agents or commercial banks) to do this according to the mortgage bank's guidelines. However, this applies only if the lending value is less than DKK 2.5 million. Valuation of real property is described in further detail below in "Valuation and size of loan".

The mortgage bank will prepare a loan offer on the basis of the valuation of the property and the borrower's needs and requirements and financial situation. The offer is then submitted to the borrower or the intermediary (normally the real estate agent or a commercial bank). The offer sets out certain conditions to be fulfilled before the loan can be disbursed. For example, one requirement is documentation of a fire insurance policy for the property.

If the borrower decides to accept the offer the mortgage bank's mortgage on the borrower's property must be registered. The Danish title registration system is described in further detail below. The borrower may enter into a registration agreement with the mortgage bank to handle the registration.

Once a mortgage deed has been registered without endorsements in connection with the registration and other conditions of the offer have been fulfilled, the loan may be disbursed.

If the loan is required to be disbursed before the conclusion of the registration procedure the borrower must provide a commercial bank guarantee that the mortgage deed will be registered without endorsements in connection with the registration and that any conditions set out in the offer can be fulfilled.

Types of loan

Mortgage loans can be either bond loans or cash loans, including variations of cash loans on variable interest terms and index-linked loans.

With regard to *bond loans* the principal corresponds to the volume of bonds which the mortgage bank sells in order to finance its lending. The repayment profile of the bond loan is thus fixed when the loan offer is made, whereas the borrower does not know the price of the bonds or the loan proceeds until the time of disbursement of the loan.

On the other hand, a characteristic feature of *cash loans* is that the principal matches the market value of the issued bonds. The loan proceeds are thus known to the borrower. On the other hand, the rate of interest on the loan, and thus the instalments, are not known until the bonds are sold. The capital loss arising on the sale of the bonds is converted into tax-deductible interest, giving the borrower a higher tax deduction than if a bond loan had been raised. On the other hand, in certain cases private individuals are liable to tax on any capital gains in connection with extraordinary redemption of the loan, cf. "Redemption and remortgaging" below. Business enterprises are generally subject to capital gains tax.

The uncertainty concerning the proceeds from bond loans and the instalments on cash loans can be avoided via forward price contracts, cf. below.

Bond loans and cash loans can be granted as *annuity loans, serial loans* or *bullet loans,* i.e. with varying repayment profiles.

Annuity loans are the most frequently used. Repayments are identical throughout the lifetime of the loan. The interest element of the repayment decreases while the instalment element increases. For a serial loan the borrower makes equal instalments during the lifetime of the loan, so that in contrast to annuity loans the repayments decrease. No repayments are made on a bullet loan during its lifetime, i.e. only interest and administration fee are paid on the principal and the principal falls due for full repayment on expiry of the loan. Bullet loans are granted primarily in connection with mortgaging of commercial properties and are not applicable to owner-occupied homes.

By tradition, mortgage credit has been provided at a fixed interest rate for the lifetime of the loan, but the mortgage banks also offer loans subject to regular interest-rate adjustment. The rate of interest for this type of loan is *adjusted* to the market rate after a predetermined number of years as chosen by the borrower. The borrower's options are variable-interest loans with a fixed or variable maturity, or loans with partial interest-rate adjustment of the principal.

Several mortgage banks also offer euro denominated loans at lower interest rates than for krone-denominated loans, although a loan raised in euro will entail a limited element of risk due to exchange-rate fluctuation.

Another type of loan is *index-linked loans* which are subject to ongoing price-index adjustment of the outstanding principal and the repayments for the duration of the loan. These loans are on the other hand characterized by a relatively low rate of interest. Up to January 1, 1999 issue of these loans was subject to a number of restrictions in that index-linked loans were to a great extent mandatory for new construction and subsidised public construction, for which they were primarily used. The restrictions were associated with the tax benefit related to pension savings placed in index-linked bonds, which had a positive effect on the bond prices. This tax benefit was eliminated for bonds issued after January 1, 1999 when the previous mandatory financing of subsidised public construction with index-linked loans was discontinued. After January 1, 1999 issuance of index-linked loans has been very moderate.

Forward price contracts

The proceeds from a bond loan and the repayments/interest payments on a cash loan depend on the price of the bonds as on the date of disbursement. As a result the borrower will be uncertain of the financial consequences during the period from the mortgage bank's loan offer until the date of disbursement.

The borrower can eliminate this uncertainty by entering into a forward price contract as a fixed-price contract with the mortgage bank or a price contract with a commercial bank. The period of financial uncertainty can also be reduced if the loan is disbursed against a commercial bank guarantee before a mortgage deed without endorsements in connection with the registration has been registered.

In a forward price contract the settlement price of the loan is fixed at the current stock exchange price less a small discount. This discount is determined by the current bond market conditions and the length of the period until the loan is disbursed.

If the borrower does not enter into a forward price contract or have the loan paid out against a commercial bank guarantee the borrower may realise a capital gain on the bond market or risk making a capital loss if the price of the bonds drops during the period from acceptance by the borrower until the issue of the bonds. A forward price contract may be entered into at any time up to the disbursement of the loan.

Fixed-price contracts/price contracts may be concluded for loans to be raised as well as for bonds to be used to redeem an existing loan, e.g. on remortgaging to a new mortgage loan.

Redemption and remortgaging (refinancing)

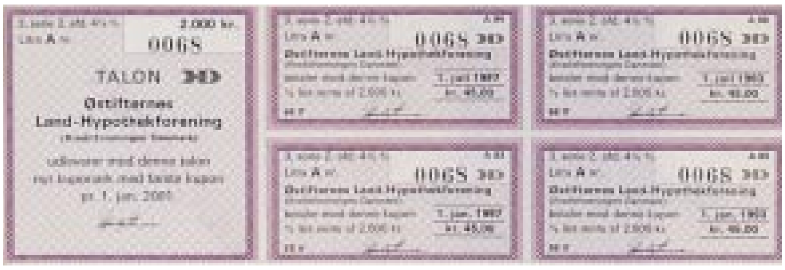
If the borrower fulfils all obligations to the mortgage bank a mortgage loan may not be terminated by the mortgage bank during the lifetime of the loan.

The borrower, on the other hand, has the option to redeem the loan at any time, i.e. full or partial redemption of the loan before it matures. This may be outright redemption or redemption in connection with remortgaging of the loan whereby the borrower redeems the existing loan and at the same time raises a new loan to replace it.

Mortgage banks usually offer several redemption methods, depending on whether the loans to be redeemed are based on callable or non-callable.

Non-callable loans may be redeemed solely with bonds of the same kind (series, section and nominal interest) as the bonds which were the basis for disbursement of the original loan. Variable-interest loans and index-linked loans are non-callable.

Callable loans - i.e. most of the existing mortgage loans - may be redeemed with bonds, but the borrower also has the right to redeem the loan for an amount equivalent to the outstanding bond debt at par value. The callable loans may be redeemed at par either by *terminating the loan as of an ordinary settlement date* or as *immediate redemption.*



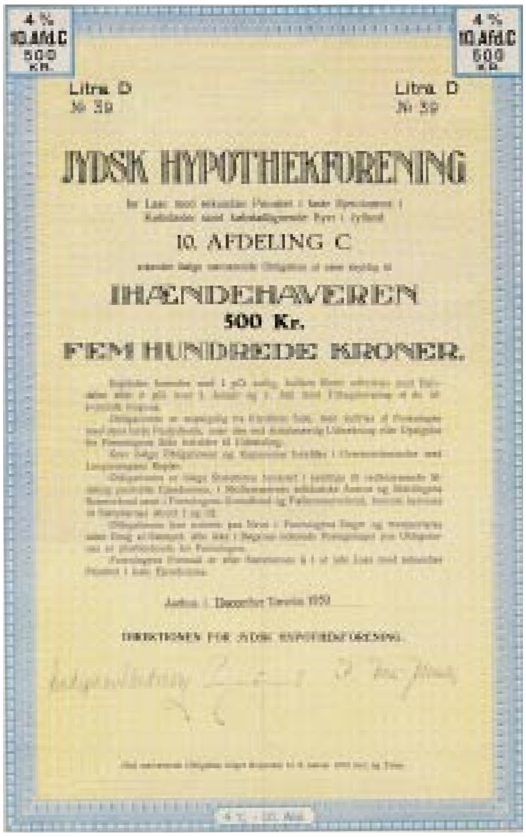
The period of notice for *termination as of an ordinary settlement date* is typically two or five months before the following settlement date (creditor settlement dates are normally January 1, April 1, July 1 and October 1), depending on whether the loan has quarterly or binannual settlement dates. The factor determining the choice of redemption as of an ordinary settlement date or redemption with bonds is whether the price of the bonds associated with the loan to be redeemed is above or below par. In the latter case redemption with bonds may be most advantageous.

Immediate redemption is used primarily in connection with remortgaging of a mortgage loan. The existing loan is redeemed at par and the new loan is disbursed immediately. However, the borrower must provide a commercial bank guarantee to the mortgage bank to the effect that the new loan can be registered, which is the condition set by the mortgage bank. In the case of immediate redemption the borrower thus does not have to wait to redeem the loan until the next settlement date. On the other hand, the borrower must pay the mortgage bank interest for the period from the date of redemption until the date (ordinary settlement date) as of which the loan could have been redeemed. The interest is calculated as the difference between the interest payable by the mortgage bank to the bond holders and the rate of compensation interest the mortage bank can offer on the redemption amount during the period from the redemption date up to the settlement date for termination.

Cash loans are subject to special rules for early redemption of existing loans since private individuals are liable to tax on certain capital gains (if the redemption amount is lower than the outstanding cash debt on the date of redemption). Cash loans can thus be remortgaged to a lower bond interest without tax consequences, while remortgaging to a higher bond interest will in principle entail a tax on the resulting capital gain. In the event of change of ownership, divorce or death cash loans can usually be redeemed without tax liability on any capital gain. This special rule applying to cash loans should be viewed against the background that the capital loss when the loan is raised is remortgaged to tax-deductible interest expenditure.

Private individuals are not liable to tax on capital gains on bond loans raised in connection with early redemption.

Business enterprises are subject to a general capital gains tax on both loan categories.



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KR.

Litra D
№ 39

JYDSK HYPOTHEKFORENING

10. AFDELING C

IHÆNDEHAVEREN
500 Kr.
FEM HUNDREDE KRONER.

Loan costs

Apart from interest to the bond holders the borrowers must also pay a risk and administration fee to the mortgage bank. The fee covers administration costs, losses, tax payments and a contribution to reserves. The fee is charged on every settlement date for the full term of the loan and is relatively low compared to the loan amount, often between 0.5 and 1 per cent of the outstanding debt. The fee depends on the category of property, the security ranking of the loan and its size and maturity.

In addition, a one-off establishment fee is charged for the loan, typically 1 per cent of the principal. However, this does not apply to loans for owner-occupied homes. The mortgage banks also charge loan fees and fees for specific services, e.g. a title registration service, debt transfer, early redemption and property valuation. Mortgage loans are also subject to title registration duty.

Lending limits and maturities

The following is an overview of the lending limits for various property categories. For each category the maximum lending limit is stated as a percentage of the property value.

In principle, there are no rules governing which categories of loan may be used to finance the various property categories. However, loans for owner-occupied homes, including weekend cottages, may not be amortized more slowly than a 30-year annuity loan. Subsidised public construction is subject to special rules. The loan category to be used to finance the subsidised construction is thus determined by the Minister for Building and Housing for one year at a time, but with the option of rapid adjustment in the event of a shift in market conditions. The Minister's decision is published in the Danish Statstidende.

The maximum term of mortgage loans is 30 years, except loans to establish non-profit housing construction for which the maximum term laid down in the Mortgage Credit Act is 35 years. However, the Ministry of Building and Housing has proposed a type of loan for financing of subsidised construction with a term of 30 years.

Table 2. Lending limits for various property categories

	Per cent
Owner-occupied homes for all-year occupancy	80
Weekend cottages	60
Private residential rental properties	80
Private cooperative housing 1)	80
Non-profit housing construction 1) 2)	84
Housing for young people 1)	80
Housing for senior citizens 1)	80
Office and commercial properties	60
Trade and industrial properties	60
Agricultural properties, etc. 3)	70
Undeveloped sites	40

1) Against a government guarantee loans exceeding the stipulated lending limit may be granted. For mortgaging and urban renewal projects these provisions also apply to other property categories.
2) The lending limit of 84 per cent applies solely to new construction. The lending limit is 80 per cent for mortgages on existing non-profit housing construction.
3) The lending limit for residential agricultural properties (currently properties of less than 5 ha) is 80 per cent.

Valuation and size of loan

Mortgage lending is based on the valuation of the individual property. The valuation rules to which the mortgage banks are subject are set out in the Mortgage Credit Act and in a special executive order issued by the Danish Financial Supervisory Authority. A central element of the executive order is property category. This entails that the valuation criteria vary according to the category of property. For all property categories the primary issue is that the valuation is based on a cash prin-ciple, i.e. considering the market value of the property. The valuation also takes variations in market and struc-tural conditions into account, so that e.g. valuations made during an economic boom provide the risk of a possible future dampening of property prices.

The assessment of the cash value does not take other mortgages on the property into account since the valuation must lie within the amount which any well-informed purchaser familiar with local price and market conditions for properties of that particular nature and size, quality and standard might be expected to pay for the property in question.

The valuation of industrial and agricultural properties must also consider the nature of the property and the business, as well as any possible alternative use of the mortgaged property.

In the case of office and commercial properties, hotels and private rental properties, as well as existing non-profit housing buildings and private cooperative housing properties, a cost-benefit analysis will normally also be prepared in connection with the valuation. In the analysis the net revenue on the property is multiplied by a discounting factor which reflects the market's required yield for this particular type of investment. The cost-benefit analysis can thus be combined with the ordinary valuation. New non-profit housing properties and subsidised private cooperative housing properties are subject to special rules whereby the value is equivalent to the purchase sum.

Where in the mortgage bank's organization the valuation function is placed varies. In respect of owner-occupied homes some mortgage banks undertake all valuations themselves via local and regional offices and only resort to external assistance from e.g. real estate agents in the event of peak loads. Other mortgage banks almost exclusively use real estate agents or partner banks for the valuation of private homes. Random tests and valuations for properties with a lending value exceeding DKK 2.5 million are always undertaken by the mortgage banks' own officers. The valuation of other properties than owner-occupied homes is also always performed by the mortgage banks' own staff, either from district or regional offices or from the head office.

The Danish title registration system (land registration system)

A prerequisite for the effectiveness of the Danish mortgage credit system is the protection of the mortgage banks' mortgage right on the borrower's real property, which is the basis for the security provided for the bonds. The mortgage right must thus be protected against other parties with whom the borrower contracts to mortgage the real property, and against the borrower's creditors under legal proceedings. This protection, which safeguards the ranking of the mortgage bank's mortgage on the borrower's real property, ensures optimum cover for the mortgage bank in the event of enforced sale of the borrower's real property. Enforced sale will take place only in the event of default by the borrower. Protection of the mortgage right is achieved via registration which is the secure noting of the security vis-à-vis a public authority.

The title registration system is therefore designed to protect both bond holders and the mortgage bank itself, so the registration requirement is a central element of Danish mortgage credit.

Any plot of land in Denmark can be identified by a title number. The title number system is administered by an agency (the National Survey and Cadaster) under the Danish Ministry of Building and Housing. The title number system is of vital significance to the registration system since the information concerning the real property stated when rights concerning the property are filed for registration is limited to building number, street and title number. This means that the title number is cited instead of a lengthy description of the property.

The title registration system is administered by the title registration offices which are specialised, judicial departments under the courts (the city courts). There are 83 title registration offices in Denmark, equivalent to the number of jurisdictions. All real property in Denmark is registered in the title register, duly identified by title number. All judicial transactions concerning a property are registered to the individual property's page of the title register. In virtually all jurisdictions registration is performed electronically.

The ranking of the holders of rights on each property is also established via the title registration system, which is based on the principle of "first in time, first in right". The mortgage ranking must always be stated clearly on any document concerning a right which is to be registered. In this way the ranking at which an execution order should be directed in the event of default by the debtor is also determined.

The ranking of the mortgages on a given property must be set out in the title register in which registration is made subject to a judicial examination. The decisions of the registration judge may therefore be appealed to a higher court (the Danish High Court).

Any person who suffers a loss as a consequence of errors committed within the title registration system may claim compensation from the Danish Treasury. This provision emphasises the importance to Danish society of the title registration system.

Lending distributed by property category

The mortgage banks grant loans for all categories of property against mortgages on real property. Table 3 presents the distribution of Danish mortgage lending.

Table 3. The Danish mortgage banks' lending by property category

DKK billion	1997 Gross-lending	1997 Net lending	1997 Outstanding bond debt	1998 Gross lending	1998 Net lending	1998 Outstanding bond debt
Residential properties						
Subsidised construction	7.0	0.7	146.5	9.4	2.1	149.9
Private rental	14.9	4.4	54.6	22.6	5.3	59.8
Owner-occupied homes	145.7	42.4	519.4	220.4	47.5	570.9
Commercial properties						
Agriculture	30.0	3.7	117.2	47.3	6.3	123.5
Industry and trade	13.2	0.5	35.7	15.9	-0.2	35.0
Offices and commercial properties	25.0	0.9	69.9	36.8	2.5	72.5
Other properties	4.0	0.8	15.3	6.7	1.4	16.8
Total	**239.8**	**53.4**	**958.8**	**359.0**	**65.0**	**1028.4**

Note: Gross lending is the mortgage principal converted to a cash value. Net lending is the principal less ordinary repayments as well as transfers and redemptions. The outstanding bond debt is the nominal amount of bonds required to redeem the nominal outstanding debt of the mortgage loan.
Source: The Association of Danish Mortgage Banks.

The mortgage banks are the preferred source of financing for private home owners, but they are also a significant player in the commercial financing market. This is related to the fact that corporate bonds are not widely used in Denmark, and mortgage bonds are used extensively instead. The mortgage banks are also one of the most important financing sources for agriculture and for subsidised public residential construction as well as private residential construction. As the table shows for virtually all loan categories lending by mortgage banks increased in the period 1997-1998.

Funding of the mortgage banks

The funds lent by the mortgage banks are obtained via the current issues of bonds, i.e. as tap issues.

This means when a mortgage bank grants a loan with a given repayment profile and maturity, the mortgage bank at the same time issues an equivalent number of bonds with the same repayment profile and maturity. However, variable-interest loans are funded on a current basis by bonds with a shorter time to maturity than the loan.

Issue of bonds is subject to a global balance principle which implies that the total repayments from the borrowers and the total payments by the mortgage banks to the bond holders must be in balance. This requirement is set out in the Mortgage Credit Act. It ensures that no interest risk is imposed on the mortgage banks. In principle, the risk of the mortgage bank is thus limited to the actual credit risk, i.e. the risk of default on interest and instalments on the part of the borrower.

However, the Mortgage Credit Act does allow for a small deviation from the balance principle. The mortgage banks may also make e.g. wholesale issues. The Act furthermore stipulates that a mortgage bank may at no time be subject to a risk of loss resulting from differences between the redemption terms or currency compositions of issued mortgage bonds on the one hand, and the loan terms on the other.

Bond types

The bond holders receive the current repayments by the borrowers to the mortgage banks. The repayments and proceeds from loans drawn for early redemption are pooled for each bond series, after which mortgage bonds for redemption at par are drawn by lot.

The drawing and payment of interest are handled via the Danish Securities Centre (Værdipapircentralen).

The mortgage banks primarily issue three types of bonds: *annuity bonds, serial bonds and bullet bonds.*

A characteristic of *annuity bonds* is that the volume of drawn bonds equivalent to the borrower's repayments is small in the first stage of the maturity term, but then rises towards the end of the maturity of the bonds.

A characteristic of *serial bonds* is that the volume of drawn bonds equivalent to the repayments on the serial loans remains constant on each settlement date.

A characteristic of *bullet bonds* is that the entire principal of the bond is drawn on maturity, i.e. no repayments are made as drawing for redemption during the maturity period.

Most mortgage bonds are fixed-interest bonds, and primarily annuity bonds are issued. The mortgage banks also issue index-linked bonds to a minor extent. Besides a fixed nominal interest, the return on index-linked bonds is the current index adjustment of the bonds. Mortgage bonds are generally characterized by a long maturity, often 20 or 30 years.

As a consequence of the introduction of a number of new loan products, including variable-interest loans, the mortgage banks also issue a number of non-callable fixed-interest bonds with a short maturity (typically between 1 and 11 years).

Callability

A callable bond can be drawn for extraordinary redemption at par in the event of early termination of the underlying loans. This applies to the majority of mortgage bonds.

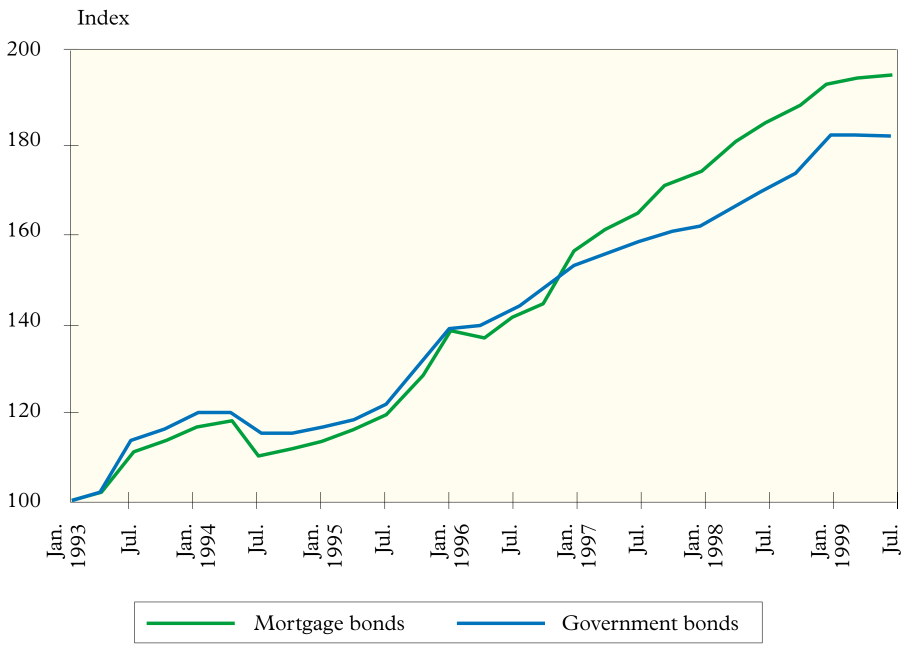
For *the bond holder* - the investor - early redemption of the bonds entails a risk of having to reinvest the proceeds at a lower interest. The investor will normally require compensation for this risk (refinancing risk) as a higher yield on callable bonds than on non-callable bonds. The size of the higher yield will depend on the investor's assessment of the risk of the borrower's right of remortgaging being exercised.

Several factors can play a role in the investor's evaluation of the borrowers' propensity for remortgaging.
The current interest level in relation to the nominal interest on the loan is naturally a decisive factor for any decision to remortgage to a new loan. Other factors often emphasised are the size of the loans and the borrower's status (private/commercial). All mortgage banks publish this data on the underlying loans on a monthly basis.

Yields

By tradition yields on Danish mortgage bonds have always been very high. Figure 1 shows yields on mortgage bonds and Danish government bonds. As the figure shows, the mortgage bond drop in market price. Mortgage bonds are therefore regarded as "gilt-edged" securities in line with government bonds with regard to statutory placement rules for insurance companies and institutional investors. Mortgage bonds also enjoy special legislative advantages

Figure 1. Yields on mortgage bonds and government bonds



Note: The figure shows yields on a portfolio of selected mortgage bonds (the Nykredit Mortgage Bond Index consisting of the ten largest groups of fixed-interest bonds in relation to the volume of bonds in circulation) in the period 1993 to 1999 compared to the yield on a benchmark government bond index (J.P. Morgan Government Bond Index).
Source: Nykredit.

index increased from 100 to 193 in the period 1993-1999. During the same period the index for government bonds rose to 186. Evaluation of these yields must also take into account the additional interest in relation to e.g. interest levels in Germany.

A high degree of security

The only risk associated with investment in mortgage bonds is the risk of a

as a consequence of EU regulations. They include that insurance companies may place up to 40 per cent of their assets in bonds issued by one single mortgage bank, and that mortgage bonds are recognised as securities of high quality (Tier 1) when loans are raised from the European Central Bank. This implies official acknowledgement of the soundness of the mortgage banks and the mortgage bonds.

This high degree of security can be characterized as follows.

- The bonds are based on loans against registered mortgages on real property.
- The mortgage banks are subject to a general balance principle which eliminates the interest rate risk associated with the lending. Only the mortgage banks' securities portfolio will entail an interest rate risk.
- The mortgage banks are subject to a solvency requirement of 8 per cent of their risk-weighted assets.
- The size of exposures for each property category is subject to legal security limits.
- The mortgage banks are subject to public supervision to monitor the mortgage bank's compliance with the provisions of the Act.
- The bonds hold preferential ranking should a mortgage bank be wound up by the courts (although such compulsory winding-up has never occurred).
- Throughout the 200-year history of the Danish mortgage credit system all bonds have been repaid.

Rating

In view of the high degree of security many Danish mortgage banks enjoy a satisfactory international rating of their issued mortgage bonds. Rated AA2 and AA3 by Moody's, Danish mortgage bonds are classified as very safe investments.

Characteristics of the Danish bond market

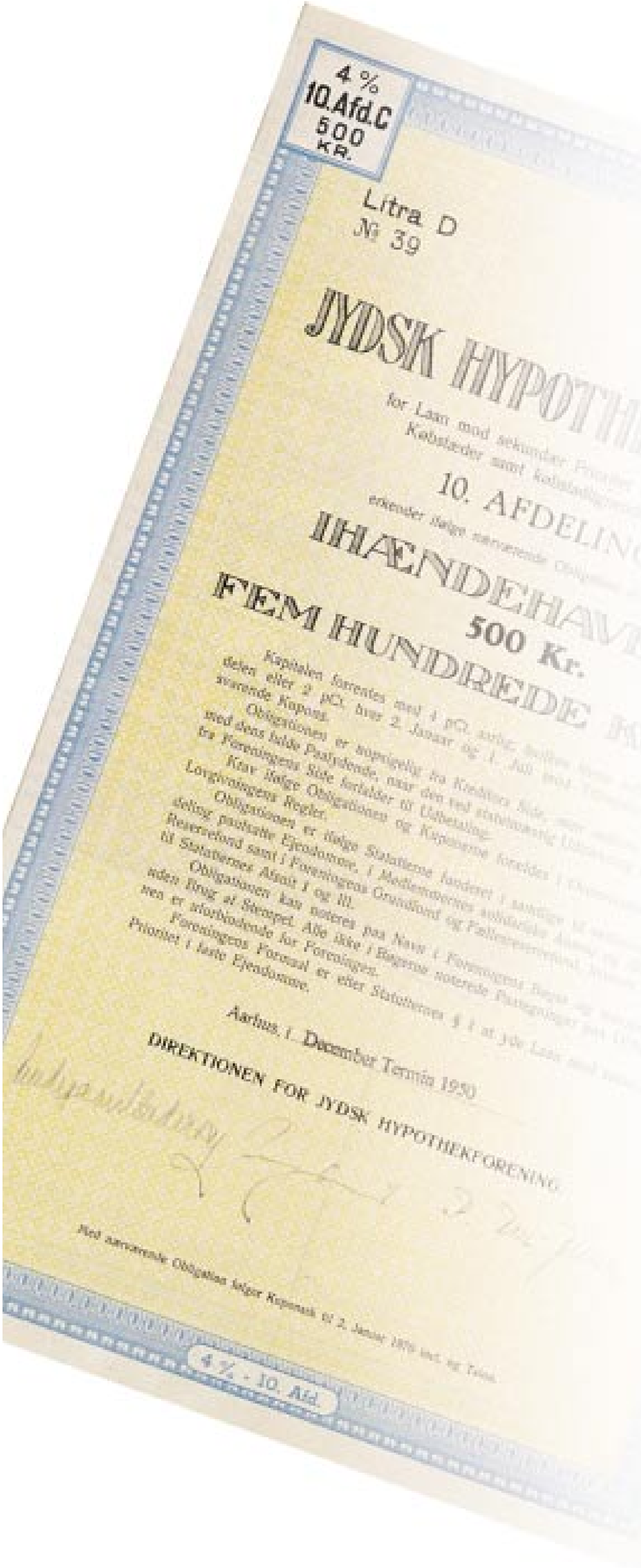
By international standards, the Danish bond market is among the largest in the world. The total volume of bonds in circulation was thus DKK 1,875 billion, corresponding to EUR 252 billion, at end-1998. Mortgage bonds in circulation accounted for approx. 60 per cent of this volume.

Table 4 presents a comparison between bonds in circulation in selected countries. It should be noted that the market for corporate bonds in Denmark is minor. Business enterprises requiring financing with characteristics similar to corporate bonds typically resort to the mortgage banks.

Table 4. Mortgage bonds in circulation in selected European countries

ECU/EUR million	Volume in circulation			Percemt of GDP
	1996	1997	1998	1998
Denmark	127,385	135,118	147,407	94
Germany	154,218	166,232	180,793	9
Spain	6,804	6,867	7,741	2
France	50,526	44,009	41,466	3
Netherlands	2,069	1,631	1,552	0
Austria	4,820	4,887	4,903	3
Sweden	76,380	67,415	70,596	36

Source: European Mortgage Federation and OECD.



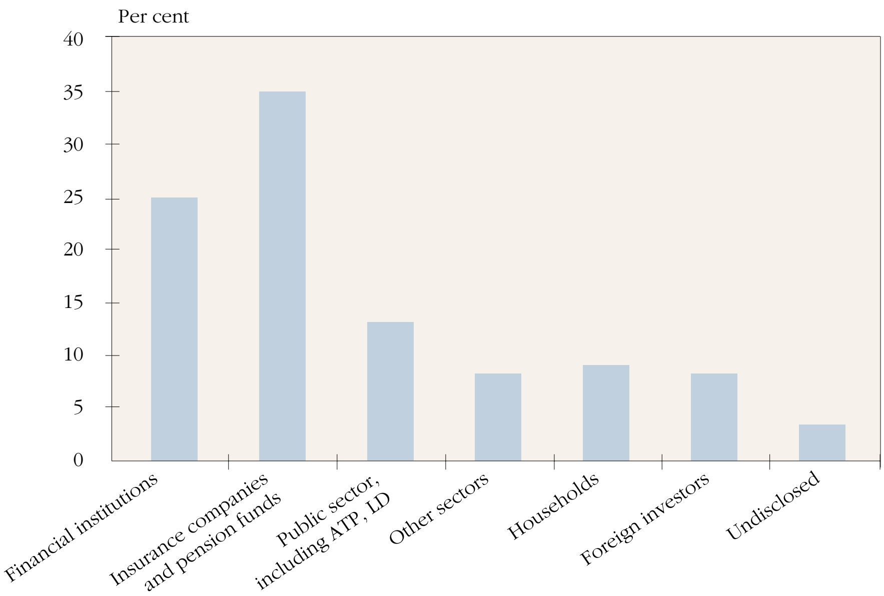
Apart from its considerable size the Danish bond market is also varied and liquid. In 1998 just below 2,500 bond series were listed on the Copenhagen Stock Exchange, of which mortgage bonds accounted for around 2,000. Total turnover on the Danish bond market amounted to EUR 1,096 billion in 1998, corresponding to average daily turnover of EUR 4.4 billion. This turnover is concentrated in particular on a small number of large series. The 10 largest mortgage bond series thus account for more than one quarter of the total volume of mortgage bonds in circulation. The benchmark mortgage bonds were bonds with a nominal interest of respectively 6 per cent and 7 per cent, both maturing in 2029.

Other characteristic features of the Danish bond market are efficiency and transparency. The extensive information available to the market participants helps to ensure this efficiency and high degree of transparency. The Copenhagen Stock Exchange provides information such as the following to the bond market: daily prices, yields before and after tax, and the volume of bonds in circulation. Average interests for respectively uniform bonds and bonds in circulation are also published.

The mortgage banks provide current supplementary information on the loans underlying the mortgage bonds. This includes details of the composition of the debtor group, instalment profiles, extraordinary redemptions and drawing notifications. This data is distributed via the electronic information system of the Copenhagen Stock Exchange.

An investment in mortgage bonds is a liquid investment thanks to the high information level and considerable turnover of bonds. Mortgage bonds are thus not only attractive placements, but also appropriate negotiable instruments.

Figure 2. Placement of mortgage bonds in circulation, end-1998



Source: Statistics Denmark.

Figure 2 shows the placement of mortgage bonds in circulation. Investors are primarily institutional investors who usually prefer securities at long maturity terms, which are in harmony with their long-term commitments. However, in recent years foreign investors have shown a growing interest in Danish mortgage bonds. Large volumes in the open series in particular are acquired by foreign investors, who now account for up to 25 per cent of the volume of certain benchmark series.

Publications of the Association of Danish Mortgage Banks

Press releases:

The Association of Danish Mortgage Banks issues regular press releases on the development in the mortgage credit market, as well as press releases as required on the economic and political conditions of relevance to mortgage credit.

Quarterly press releases are issued on the development in respectively property prices and mortgage lending. The details of property price trends in the press releases are based on data reported by the mortgage banks for loans granted to finance house purchases. The statistics are published for the individual local authority. The press release on mortgage lending includes information on the development in the market shares of individual mortgage banks.

Remortgaging tables:

The Association of Danish Mortgage Banks issues monthly remortgaging tables to intermediary lenders, etc.

The Annual Report of the Association of Danish Mortgage Banks

The report on the current year, including the Chairman's report, summary and special sections on e.g. amendments to mortgage credit legislation, EU-related issues, the property market, lending by mortgage banks, credit extension and the bond market. An English summary is also published.

Mortgage credit statistics:

The annual report also includes a special statistical publication with data on lending by mortgage banks, etc.

The mortgage credit system:

Collection of articles published to mark the 25th anniversary of the Association of Danish Mortgage Banks in 1997.

Mortgage financing in Denmark:

The Association of Danish Mortgage Banks publishes brochures on mortgage financing in Denmark in Danish and English. These publications present an overview of mortgage lending and current regulations.

Danish Mortgage Bonds:

A publication designed to inform investors about Danish mortgage bonds and the underlying security.

Mortgage credit calendar

Calendar of legislative amendments, etc. of relevance to the mortgage credit system. The calendar is available in a printed version for the period 1980-89 and has been reprinted as updated in subsequent annual accounts.

Most of the publications stated above are available on the Web site of the Association of Danish Mortgage Banks at www.realkreditraadet.dk. The Web site also includes the Mortgage Credit Act and a list of executive orders issued pursuant to the Act.

Glossary

Acknowledgement
Acknowledgement of receipt of a notification, e.g. of assignment.

Administration fee
Covers the interest margin of the mortgage bank. The administration fee covers e.g. the mortgage bank's costs of working, allocations to reserves, losses and surplus. The fee is usually calculated as a percentage of the outstanding debt. For old loans the fee may be calculated as a percentage of the instalment or the principal, and the fee is tax deductible.

Advance loan
Loan related to properties to be developed. The loan is granted on the basis of the expected lending value and against an appropriate commercial bank guarantee or other secure guarantee that the loan will be redeemed or reduced if it cannot be granted at the allocated amount after the expiry of the deadline for final development of the site.

Amortize
To repay a loan.

Annuity loan
A characteristic of an annuity loan is that the repayments to cover interest and instalments remain constant throughout the term of the loan. As the loan is repaid the proportion of the repayment which is interest declines and the instalment share increases. Since interest is tax-deductible the instalment payment after tax increases.

Bond
Written instrument of debt issued by e.g. a mortgage bank, most frequently subject to interest payments.

Bond loan
A loan of which the principal corresponds to the volume of bonds to be issued, the interest on the loan and on the bond is the same.

Bond principal
The principal stated on the mortgage deed as regards bond loans, and for cash loans the underlying bonds on disbursement of the loan.

Bond interest percentage
See "Face interest".

Brokerage commission
The fee charged by the mortgage bank, commercial bank or stockbroker which carries out the bond transaction. The commission is calculated in points per thousand of the bonds' market value.

Bullet loan
Loans which are not repaid until maturity, i.e. the entire principal falls due on the maturity of the loan.

Callable bonds
See "remortgaging/refinancing".

Capital loss
For example the loss arising on sale of a bond at a price below the nominal value of the bonds.

Cash interest rate
The rate of interest on a cash loan. The cash interest rate includes the capital loss on sale of the bonds. The capital loss/gain is repaid throughout the term of the loan. The size of the cash interest rate depends on the price at which the loan is paid out. The higher the price, the lower the rate of interest, and vice versa.

Cash loan
The principal of a cash loan is equivalent to the market value of the bonds sold on the granting of the loan. The capital loss (at prices below par) is repaid over the term of the loan as part of the interest on the loan. The capital loss is tax-deductible since it is included in the interest payments on the loan.

Cash valuation
Valuation of the market price of a property in a cash sale. Can be regarded as the opposite of the financed price.

Commercial bank guarantee
Guarantee given by a commercial bank or a savings bank as security that a person will meet all commitments vis-à-vis a third party.

Copenhagen Stock Exchange
The Copenhagen Stock Exchange is the venue for official trading in and listing of securities. Trading takes place by electronic means among the stockbrokers.

Coupon rate
Payment by the buyer to the seller of the first interest amount falling due. The payment comprises the nominal interest from the last due date until the date on which the buyer pays for the bonds.

Credit association
See “Mortgage bank”.

Creditor
Claimant, e.g. a bond holder.

Creditor settlement date
Interest and drawn bonds fall due to the bond holders on the creditor settlement dates. There are two or four such dates per year.

Debtor
A person who owes money, for example a borrower in relation to a mortgage bank.

Debtor settlement date
The debtor settlement dates are the dates on which the repayments on the loan fall due. There are two or four debtor settlement dates per year. However, one mortgage bank offers a monthly payment scheme.

Differential interest rate
The difference between the interest on the redeemed loan from the redemption date until the subsequent ordinary settlement date on which the loan could have been terminated according to the loan terms, and the interest offered by the mortgage bank to the customer as compensation for access to the redemption amount during that period.

Drawing
Drawing by lot of the bonds to be redeemed at par on the relevant ordinary settlement date.

Drawing gain
The difference between the drawing price (=100) and the current market price (a loss if the market price is below par).

Effective interest rate
The effective interest rate is the total price for the loan. Other factors besides the ordinary interest rate are taken into account, i.e. capital loss, administration fee, brokerage commission, initial commission, stamp duty and registration duty, as well as the repayment date. See also “Percentage annual costs”.

Endorsement in connection with the registration
Endorsement by the court registry on a registered document to the effect that its contents deviate from the record in the title register and as a consequence the creditor cannot accept the endorsement. The endorsement may concern e.g. a mortgage deed if more mortgages or restrictive covenants are stated in the title register than on the mortgage deed.

Executive order
Supplements an Act. Executive orders are issued by a minister or an agency with appropriate authorization under an Act. An executive order is binding, i.e. it can only be amended by a new executive order, or by amendment of the underlying Act.

Face value
The amount stated on a bond. The same as the nominal value.

Face interest
The interest stated on a bond. The same as the nominal interest.

Fee
Payment for a service, e.g. valuation and case handling, in connection with the raising of mortgage loans.

Fixed-price contract
A contract concluded with a mortgage bank. The debtor may obtain forward cover of price fluctuations by concluding a contract on the disbursement of a new loan at a fixed price on a future date. A fixed-price contract can thus be concluded for a loan to be raised, or for a loan to be redeemed. See also “Price contract”.

FlexLoan
A FlexLoan is a variable-interest loan which is taxed as a cash loan. Since the rate of interest is adjusted on each addition of interest, the instalment amount or the maturity of the loan will change, depending on the type of FlexLoan chosen. See also “Variable interest loans”.

Forward price contract
Forward price contracts by which it is agreed on the date of the contract when a bond holding will be sold and at which price.

Funding
Procurement of funds for lending via issue of bonds, etc. on the capital market.

Index-linked bonds
Bonds with a low nominal interest whose value is written up in step with the development in an agreed index, typically the ordinary price level (the index of net retail prices), so that the value of the bonds has the same purchasing power.

Index-linked loan
A loan category with ongoing adjustment of principal and outstanding debt, and thus of interest and repayments, according to the development in an agreed price index.

Instalment
Is the part of the repayment which reduces the outstanding debt of the loan.

Interest rate
See “Face interest”.

Issue
Issue of e.g. bonds, shares, etc. This can either be tap issue, whereby each bond is divested in step with the lending, or wholesale issue whereby a bond amount is issued as a total amount which is independent of the amount lent, with a view to subsequent application of the proceeds for lending purposes.

Joint and several liability
The liability of each debtor in the event of joint and several liability for a shared debt (one for all, all for one). A distinction is made between primary joint and several liability whereby a creditor may file an immediate claim for the entire amount vis-à-vis any debtor and subsidiary joint and several liability whereby the other debtors are not charged until the individual debtor is unable to repay all or part of the debt. Joint and several liability has never been invoked in connection with mortgage credit loans.

Lending limit
The maximum permitted mortgaging of the value of the property. The Mortgage Credit Act stipulates a maximum lending limit for various property categories.

Lending value
The value of the property calculated by the mortgage bank according to current rules. The lending value may correspond to the reasonable cash market value of the property, but in principle may not exceed this value.

Lifetime
Number of years from the disbursement of the loan until it falls due.

Listing
Fixing of prices on the Stock Exchange.

Market value
Is the nominal value multiplied by the price of the bond.

Market value of index-linked bonds
Is the nominal value, the current index factor (index of net retail prices) multiplied by the price.

Mortgage bank
An institution which grants loans against registered mortgages on real property by issuing bonds.

Net repayment
The repayment, after tax deduction of interest and administration fee.

Nominal loan
Nominal loan is a joint term for other loans than index-linked loans.

Nominal value
Face value. The face value of a bond.

Nominal interest
Face interest, i.e. the interest on the nominal value of a bond disregarding the discounted value of the principal.

Non-callable bonds
Loans based on non-callable bonds can be redeemed solely by purchasing the bonds at market price. See also "Remortgaging".

Non-profit public housing
Properties constructed and operated on a non-profit basis according to the Danish Non-Profit Housing Act.

Official listing
Valuation by the Copenhagen Stock Exchange of e.g. securities.

Ordinary settlement date
Last due payment date for e.g. the repayment on a mortgage loan.

Outstanding bond debt
The outstanding debt on a bond loan. For cash loans the outstanding debt on the underlying bonds.

Outstanding debt
The amount owed at any time.

Outstanding debt on cash loans
The outstanding debt on a cash loan, i.e. the outstanding debt for the underlying bonds.

Par
Price 100.

Percentage annual costs
Stated in the credit information section of the loan offer. Includes bond interest, capital loss, administration fee, brokerage commission, initial commission, registration duty and case processing fee. Often abbreviated PAC.

Points
An increase or decrease in the price is stated in points. The difference between price 90 and price 91 is thus one point.

Price contract
Price contracts can be applied to all loan categories. The purpose of the scheme is to arrange forward cover for the mortgage loan at the time that it is raised. The price contract is concluded with a commercial bank, which means that the loan can be disbursed at a fixed price on the required date. Price contracts may be concluded for loans

to be raised, as well as loans to be redeemed. See also “Fixed-price contract”.

Principal
The original amount of the loan. The mortgage bank undertakes registration of this amount as a mortgage on the property.

Private mortgage
Mortgage deed issued to a “creditor other than a mortgage bank”, often a mortgage secured to the vendor.

Proceeds
Income, dividend, gain. For example, the proceeds from a mortgage loan are the amount disbursed, equivalent to the loan (for bond loans the product of the principal and the price) less brokerage commission, initial commission and other fees.

Property categories
A division of properties into various groups such as owner-occupied homes for all-year occupancy, agricultural properties, etc. The property category affects the lending scope of the mortgage banks.

Property value
The official valuation of a property which provides the basis for taxation. The value is divided into the value of respectively site and buildings.

Realkreditrådet
Realkreditrådet (the Association of Danish Mortgage Banks) is the trade organisation of the Danish mortgage banks.

Real property
Constitutes land and the buildings regarded as a single entity with regard to allotment and registration laws.

Redemption
Repayment of a loan on maturity, or as extraordinary redemption before maturity. Extraordinary redemption may be of the whole amount or a part of it.

Refinancing risk
The bond investor’s risk with regard to the debtor’s access to remortgage loans to a lower interest rate, which entails the drawing of the bonds.

Registration
1. Official registration of rights, particularly those pertaining to real property.

2. Registration in the title register.

Remortgaging
Raising of a new loan in connection with extraordinary redemption of an old loan.

Remortgaging/refinancing
Remortgaging of loans in connection with shifts in interest rates.

Remortgaging in the event of a drop in interest rates (downward remortgaging) is to a new loan at a lower interest rate and thereby reduced repayment.

Remortgaging in the event of a rise in interest rates (upward remortgaging) is to a new loan at a higher rate of interest and thereby higher repayments, while the outstanding bond debt is reduced. The purpose is usually to make new downward remortgaging possible in the event of a subsequent drop in interest rates.

Repayment
Is the amount, including interest, any interest on overdue payments, instalment and administration fee, pertaining to a mortgage loan which is payable on each ordinary settlement date.

Reserve fund
Fund to offset e.g. losses. In certain cases there are statutory requirements concerning minimum reserve funds. Such requirements apply to e.g. mortgage banks whose reserve funds must be calculated on the basis of the volume of lending.

Section
A subdivision of bonds. Bonds issued under the same section normally have identical characteristics, apart from the interest. Several securities IDs (see this item) can be issued in the various sections.

Securities ID
A unique code for each paper listed on Copenhagen Stock Exchange.

Serial loan
Loans with equal repayments on each settlement date, i.e. declining instalments throughout the term of the loan.

Settlement amount
The amount to be repaid on a loan on each ordinary settlement date. It comprises instalments, interest and administration fee.

Stamp duty
Duty payable to the Danish state, e.g. for title registration of mortgages and conveyances. See also “Title registration duty”.

Supplementary loan
A loan against real property outside a specific purpose category. Such loans are raised after e.g. redemption of a number of old loans, thereby creating a free lending value on the property.

Term of notice
The last possible date on which the loan or the refinancing amount may be terminated as of the following bond settlement date.

The Danish Securities Centre
Self-governing institution which e.g. registers bond issues and bond trading.

Title number
Unique identification of real property, including number and plotowner association.

Title register
Registers of real property held by the court registries. Rights pertaining to real property such as conveyances, mortgages and easements are registered. All title registers are expected to be available electronically by the year 2000.

Title registration duty
As of January 1, 2000 the stamp duty and the fixed title registration duty are replaced by a registration duty, i.e. a fixed amount as well as a certain percentage.

Variable-interest loans
Cash loans whereby interest and instalments are adjusted after an agreed number of years. These loans are marketed as e.g. FlexLoans and Adjustment Loans with varying characteristics. The most recent type of variable-interest loan is a euro loan whereby the rate of interest depends on the development in Euroland.

Wholesale issues
See “Issues”.

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