



# **Strategies of Mortgage Market in the Global Economic Crisis – National and International Experiences**

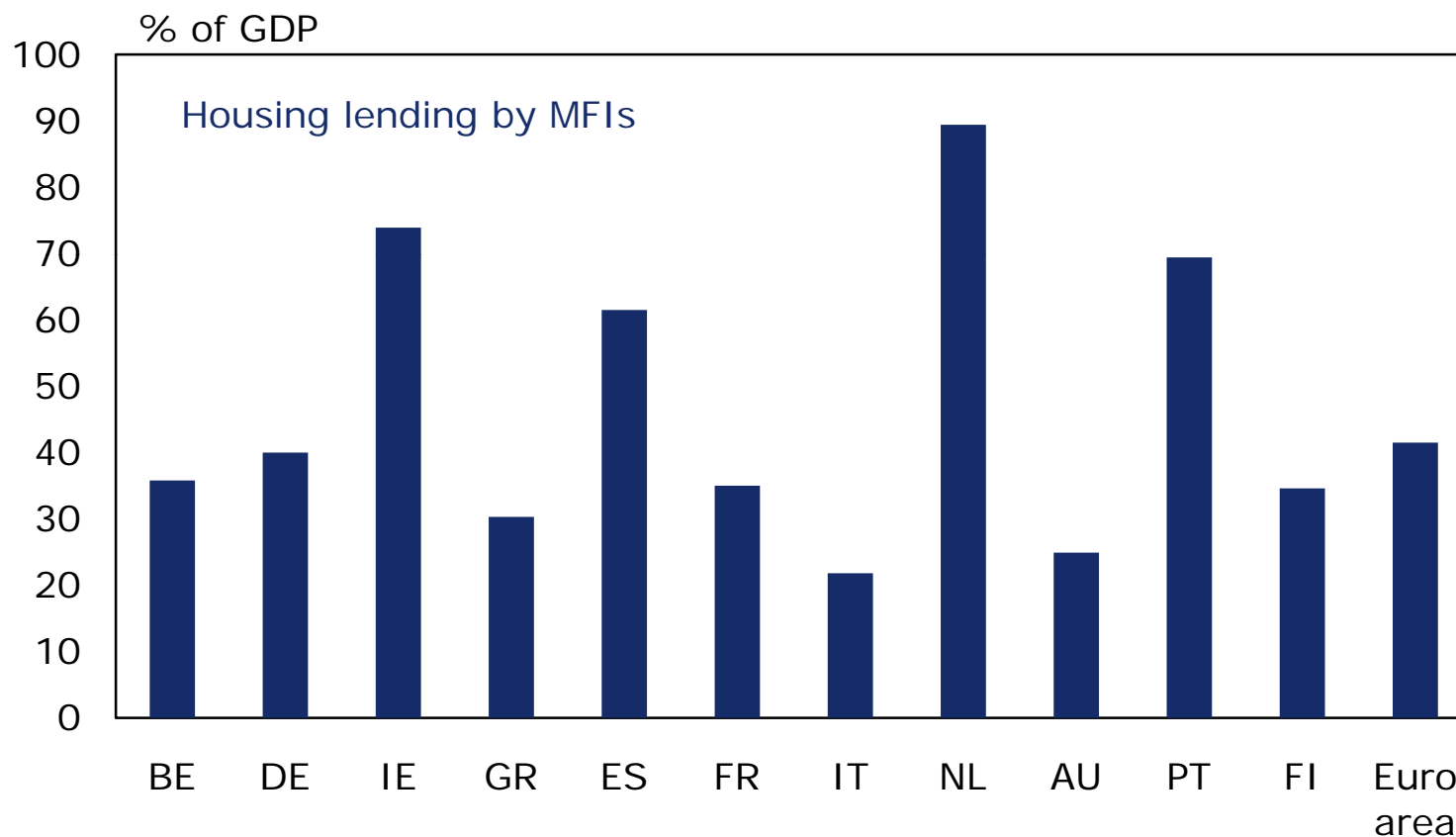
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Niels Tørslev, Group Managing Director  
The Nykredit Realkredit Group, Denmark

## Agenda

- Long-term property finance etc in developed countries accounts for a large proportion of GDP
- Stable finance systems are important to economic stability in any country and thus GDP
- Expensive to repair the systems through bank rescue packages etc
- Exit strategies
  - More stable systems are being considered
  - Short-term profits should be avoided
  - Government-owned/government-guaranteed vs stricter rules
- System requirements: Extensive, simple, transparent and minimal risk
- The Danish mortgage lending system an example in point
  - Large volume
  - Few players in the value chain
  - Both lenders and borrowers are responsible
  - Has performed despite the financial crisis

## Long-term finance and GDP



Source: ECB - Housing Finance in the Euro Area, No 101, March 2009.  
 Most recent data for the individual countries - mainly 2005-2007

## The Danish housing finance system

### A long-standing success

- 200-year history
- Mortgage banks finance virtually all housing
- No mortgage bank has ever been declared bankrupt
- Europe's largest mortgage covered bond market

### A solid foundation

- Special legislation and strict supervision by one supervisor
- Maximum LTV ratios and valuation rules set by law
- Credit risk remains on the balance sheet of the originator
- Specialised banks with no market risk
- Capital market funding with covered bonds
- Transparency for home owners and investors

## Key strengths

- Strong credit culture
  - Loans remain on the balance sheet of the originator
  - Homeowners are personally liable for their mortgage loans
  - Danish legislation is creditor friendly and underpins swift repossession
  
- No market risk between lending and funding
  - "Balance principle"
  - Pass-through of mortgage cash flow to investors
  - Match funding to maturity and refinancing at "cost of funds" plus a spread
  
- Transparency
  - The homeowner knows the market value of his loan
  - The borrower can prepay at par **or** deliver underlying mortgage bonds if they trade below par

## Bond issuance in times of financial crisis

