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New agreement on social housing financing

The government has reached an agreement with the mortgage banks about changes to the existing social housing financing model. The changes regard new and existing state supported construction loans as well as new and existing renovation loans supported by Landsbyggefonden.

According to the terms of the agreement, the mortgage banks will remain responsible for loan issuance to the social housing sector. The state will provide a 100 per cent guarantee on the loans and on the new social housing mortgage bonds. The new social housing mortgage bonds will be held in separate capital centers within the mortgage banks.

In return for the state guarantee, the mortgage banks shall pay a fee of 0.12 per cent of the loan principal to the state.

In order to ensure the quality of credit ratings of the specific loan projects, the profit of the mortgage banks is contingent on the state not suffering losses on these projects. Part of the agreement is therefore, that in the case of a default where the state suffers losses, the mortgage banks will too lose part of a predetermined amount. This amount is intended to cover part of the losses incurred by the state.

The municipal guarantees will be kept at the current level, however, the guarantees will be provided to the state and not to the mortgage banks. In practical terms this means that the state will bear the limited risk of the loan, a risk which is currently born by the mortgage banks.

The state may choose to issue government bonds and purchase the new social housing mortgage bonds, if this results in further interest rate savings.

In a similar fashion, the state may purchase KommuneKredit bonds, which are used to finance municipal senior housing with a 100 per cent municipal guarantee. KommuneKredit will continue to be responsible for municipal senior housing financing.

Supported loans in the social housing sector approximate DKK 181 bn. (approx. EUR 24.5 bn.). Of these, approximately DKK 53 bn. (approx. EUR 7.2) are



index loans and DKK 25 bn. (approx. EUR 3.4) KommuneKredit loans, both of which will not be converted to the new financing model.

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The index loans may, pending bilateral agreement with the mortgage banks, be included in the state guarantee model provided that the mortgage banks pay the aforementioned fee of 0.12 per cent of the principal to the state.

Adjustable-rate mortgages (primarily RTL-5) which approximate DKK 71 bn. (approx. EUR 9.6 bn.) will be transferred to the new financing model at the time of their next refinancing. Fixed mortgage loans, approx. DKK 37 bn. (Approx. EUR 5 bn.) will be transferred at mandatory conversion rounds.

The state will continue to decide on the type of loan issued, both with regards to new loans and to the conversion of existing loans. The chosen loan types will be published at a later date.

As a consequence of the above agreement, the state will make adjustments to the maximum fees of supported social housing loans. These were last adjusted in 1999.

An amendment proposal to the Finance Act and a change in the Law of Social Housing will allow the agreement to take effect. Both requires approval by a political majority in the parliament.