

## Overview:

# New Legislation addressing Refinancing Risk

Art. 6 in the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act  
effective from 1/4/14 and 1/1/15, respectively

March 2014



# Interest rate trigger



## Interest rate trigger – fixed rate

- Applies only to 1-2Y mortgage covered bonds used to refinance mortgage loans
- 1Y effect from 1/4/14, 2Y from 1/1/15

## Trigger rate

- 1Y: Yield to maturity on a corresponding 1Y-bond 12 months earlier + 5%-points
- 2Y: Yield to maturity on a corresponding 2Y-bond 12 months earlier + 5%-points

## Consequence

- The bond is extended by 12 months at the trigger rate
- After 12 months the bonds will be refinanced – even if interest rates above trigger rate
  - Risk of failed auction
- Investors receive pro rata payment for bonds sold

## Proces:

- Issuer publishes auction plan – may be revised
- Prior to auction, issuer evaluates whether conditions for activation met
- Possible, that trigger will be activated during auction period => pro rata
- Danish FSA will be notified

## Interest rate trigger – floating rate

- Applies only to 1-2Y mortgage covered bonds used to refinance mortgage loans

## Trigger rate

- Previous interest rate fixing + 5%-points

## Consequence

- The coupon rate is fixed for 12 months
  - Unless lower interest rate is fixed during that period or bond matures
- If interest rate trigger is activated at the same time as the bond matures it will be extended by 12 months and the interest rate fixed at the trigger level
- After 12 months the bonds will be refinanced– even if interest rates above trigger rate
  - Risk of failed auction
- Investors receive pro rata payment for bonds sold

## Foreign properties

- Mortgage covered bonds issued to finance properties outside Denmark **are not** subject to the Interest rate trigger

# Failed refinancing trigger and Bankruptcy



## Failed refinancing trigger

- Applies to all mortgage covered bonds used to refinance mortgage loans (1Y to 10Y)
- Fixed rate and floating rate bonds
- Activated if there are not sufficient buyers for all bonds to be refinanced
- 1Y effect from 1/4/14, other bonds from 1/1/15

## Trigger rate

- 1Y bullet bonds: Yield to maturity on a corresponding 1Y-bond 12 months earlier + 5%-points
- 2Y bullet bonds: Yield to maturity on a corresponding 2Y-bond 12 months earlier + 5%-points
- 3-10Y bullet bonds: Yield to maturity on a corresponding 1Y-bond 12 months earlier + 5%-points
- Floating rate bonds: Most recently fixed coupon + 5%-points

## Consequence

- The bonds are extended by 12 months at a time at the trigger rate
- Investors receive pro rata payment for bonds sold

## Proces

- Issuer publishes auction plan – may be revised
- Prior to auction, issuer evaluates whether conditions for activation met
- Possible, that trigger will be activated during auction period => pro rata
- Issuer may attempt to sell shorter-dated bonds before activating trigger
- Danish FSA will be notified

## Foreign properties

- Properties outside Denmark **are** subject to the Failed refinancing trigger

## Bankruptcy

- Trustee still able to issue bonds => no activation of triggers
- Investors cannot demand acceleration of payments
- If auction fails
  - Bonds extended by 12 months at a time
  - Coupon fixes at a 1Y reference rate + up to 5%-points