DitRåderum

New product from Nykredit

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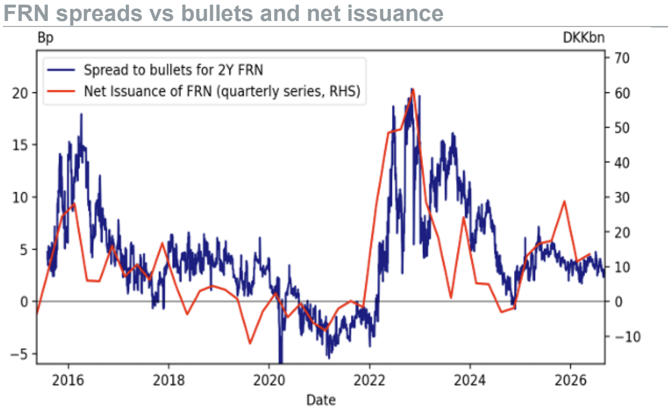
- Nykredit is launching a new product based on a 30-year IO loan financed by CITA 6M FRNs
- The product also includes a deposit account where the deposit rate matches the lending rate
- We expect only a marginal impact on the FRN-bullet spread.

Last week, Nykredit launched a new product, DitRåderum, which is a 30-year IO loan financed by CITA 6M FRNs. We do not currently expect the product to lead to such significant changes in the net issuance of FRNs that it would put pressure on the bullet-FRN spread. This research note relates solely to the effect of the new loan on issuance and spreads.

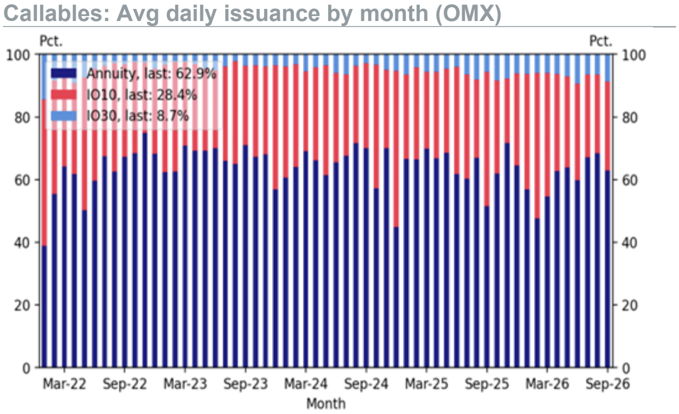
FRN spreads vs bullets and net issuance



High correlation between net issuance of FRNs and FRN-bullet spread.

Source: Nykredit Markets

Callables: Avg daily issuance by month (OMX)



Fixed-rate IO30 loans currently account for about 10% of issuance of fixed-rate loans.

Source: Nykredit Markets

Issuance

DitRåderum loans are financed through existing CITA 6M FRN bonds. CITA 6M is already the dominant FRN reference rate, and floaters with this reference rate currently account for around 75% of FRN issuance.

We have previously shown that higher net issuance of FRNs leads to wider FRN-bullet spreads (see the top chart on this page), and if DitRåderum proves successful, it could potentially result in spread widening. However, a significant increase in issuance would be required to push the FRN-bullet spread wider.

Issuance is unlikely to come at the expense of fixed-rate IO30 loans. This is because issuance of fixed-rate IO30 loans is very limited. Nykredit has thus issued DKK 0.5-1.5 billion-worth of fixed-rate IO30 bonds in each of the past several quarters, while the chart at the top of this page shows that around DKK 3 billion of additional issuance per quarter would be needed to increase the FRN-bullet spread by just 1bp.

Is DitRåderum a "secured homeowner loan killer"?

Given that DitRåderum is granted and marketed within a broader framework, we believe the loan could, to a large extent, compete with secured homeowner loans.

The product takes the best of both worlds: a low, identical interest rate for all borrowers and offsetting of the part of the loan proceeds that has not been used.

In terms of administration margin, the loan is priced 10bp higher than the corresponding 10-year interest-only F-kort variant at 60% LTV, resulting in an administration margin of 0.66bp after deduction of KundeKroner. This appears cheaper than what most competitors offer for similar secured homeowner loan structures.

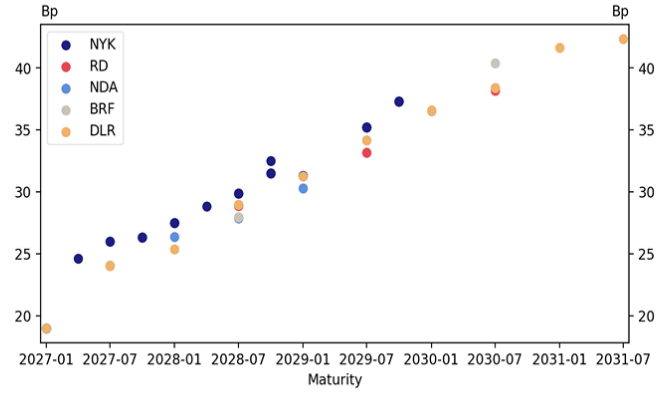
The signalling effect of Nykredit simultaneously widening the difference between deposit and lending rates on traditional bank-issued home loans also indicates that DitRåderum is intended to replace at least part of what is currently financed through secured homeowner loans. This means that the scale of issuance could potentially reach a level that may affect the FRN-bullet spread.

In estimating the scale of issuance, however, it is worth noticing that DitRåderum is a mortgage loan with an add-on in the form of a deposit account with Nykredit Bank. The product is therefore solely a Nykredit product and not a Totalkredit product, which, all else equal, significantly reduces the scale of issuance.

Issuer differences in the FRN segment

Similar to what we have observed with callables, Nykredit's dominant issuance has resulted in issuer differences. The issuer differences in callables and FRNs are identical at around 1-2bp, and even though our basic hypothesis is that this spread will not widen, increased FRN issuance could challenge this spread in the long term.

FRN spreads to CITA: SD(R)O, LCR-1B, non-call, non-green



Marginal issuer differences in the FRN segment.

Source: Nykredit Markets

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Recommendation	
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As at 13.12.2024

Note: Distribution of our recommendations, which therefore add up to 100%.