



Dear Reader,

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We can now successfully put 2005 behind us and look forward to an interesting and challenging 2006 in the Nordic mortgage market. I think it's fair to say that we can probably expect lots of activities from all the players in the Nordic countries, lenders as well as regulators, which will make our daily work both hectic and enjoyable.

In this first issue of the Nordic Quarterly Bulletin for 2006 we will take a closer look at the trend of increasing house prices in Sweden and our neighbouring Nordic countries. Interest rates in the Nordic region are at historically low levels and this is helping to fuel the rise in house prices. We have asked four experts from each of the Nordic markets to comment on recent trends in their respective housing markets and to make some predictions for the major variables that may affect their markets going forward.

In our article about the Securitisation Market and Mortgage Insurance, we discuss how the issues of mortgage funding, capital relief and risk transfer are handled through the capital markets by mortgage lenders in other European markets. A number of techniques are used to help lenders achieve their aims in these areas and we look in detail at the mechanics of True-Sale and Synthetic Securitisations. (Read more from page 5 onwards).

### Housing Market Analysis – Highlights

Once again we bring you detailed analysis of economic and housing factors impacting financial institutions and in particular mortgage lenders in Sweden and Denmark. Here are the highlights. (Read more from page 8 onwards).

After a less productive first quarter in 2005, the Swedish economy grew stronger towards the end of the year. One of the reasons for the improvement was the weak Swedish Krona that has positively impacted Swedish exports. The GDP growth for 2006 is forecasted to be approximately 3,6%.

During the last quarter of 2005 the Danish economy experienced a higher GDP growth than expected at 2,8%. This growth was driven by strong private consumption and increasing exports. The forecasted GDP growth for 2006 is more moderate with an expected 2,4% increase.

The Danish National bank increased the key interest rate by 0,25% in December 2005. The forecast represents a further increase to the key interest rate during 2006.

The Swedish Riksbank also increased the Repo rate by 0,25%, effective from 25 January 2006. A further increase of the Repo rate is most likely to occur if the increase do not have the intended effect.\*

The house price prices in Sweden showed a broad increase across all regional markets during 2005 with an overall increase of 12%. The growth rate is expected to slow down somewhat in the aftermath of the recent interest rate increase but is expected to continue to climb into 2006.

House prices in Denmark experienced even stronger price growth than Sweden during 2005. This resulted in an overall escalation in all regions with an average increase of 22%. The Copenhagen area has been the most explosive of the local regions with growth of 33% in 2005.

### Claes Billing

*Managing Director, Nordic  
Genworth Financial  
Mortgage Insurance – Europe*

# GENWORTH MEASURES THE TEMPERATURE IN FOUR NORDIC MARKETS WITH FIVE HOT TOPICS

House prices have been increasing in Sweden since the early 1990s. Interest rates are also at a historical low level, which has helped to facilitate this period of growth. In our neighbouring Nordic countries, the same trend has also been experienced. Will this trend continue, or will we experience some sort of correction in the market? Other European countries such as the UK and Spain have also experienced sustained house price increases, but have recently seen price increases drop off to stagnation levels. Both these countries have so far managed to avoid any sharp deterioration in house price levels that would result in credit problems for mortgage lenders.

Within the Nordic region, the question is, will we manage to achieve the same result, or should we worry about prices continuing to increase at a rate that may lead to sharp correction with the corresponding credit concerns for borrowers and lenders alike? We have asked some of the experts in each of the four main Nordic markets, to make a prognosis of the main factors affecting their housing markets over the medium term.



## Sweden

**Interview with Bengt Turner, Professor of Economics, esp. real estate economics, Uppsala University, Institute for Housing and Urban Research (IBF) and Department of Economics**

**Q1** The unemployment rate in Sweden has been quite stable around 5,5% since 2004. What do you think will happen to the unemployment rate in the next 3–5 years?

**A1** My guess would be that the rate will decrease slowly as a delayed response to the growth in the Swedish economy. There is an uncertainty, though, as high-skilled jobs increasingly tend to be located in other countries.

**Q2** The prices of houses and tenant-owner apartments have steadily trended upwards over the last couple of years, what do you think will happen to the nominal prices in the next two years? And in the next 3–5 years?

**A2** If the nominal (and real) interest rates remain at the present, low level, I expect a slow upward movement in house prices in the short run. In the long run, a small downward adjustment is more likely. If the interest rate

is increased by, say 100 – 200 basis points, a short-term drop is inevitable. The long-term development then seems more positive.

**Q3** The interest payments are deductible with 30% today for negative capital income under SEK 100,000. Thereafter there is a deduction at a tax rate of 21%. Is it possible that this will change in the next 3–5 years?

**A3** The European trend is towards a cap on interest deductions beyond a “normal” level. I guess that politicians are satisfied with the present situation where price appreciations has made this rule more stringent over time.

**Q4** The property tax today for houses is 1.0% and 0.5% for apartment buildings, with the exception of new-built housing. What do you think will happen to the property tax in the next 3–5 years?

**A4** It all depends on the future political leadership. A right wing government may reduce the rates over time, if the fiscal situation permits.

**Q5** The Repo rate in Sweden is historical low today even though the Riksbank recently increased it with 0,25% to 1,75%. \* What do you think will happen to the Repo rate in the next two years? And in the next 3–5 years?

**A5** A further increase is likely, but I see no reasons for e.g. a doubling up to 3.0%, unless the pressure created from increased demand leads to an increase in inflation.

## Denmark

**Interview with Jens Lunde, Associate Professor, Department of Finance, Copenhagen Business School.**

**Q1** The unemployment rate in Denmark has been decreasing slightly the last year. What do you think will happen to the unemployment rate in the next 3–5 years?

**A1** The Economic Council announced in December that the number of unemployed was 158,000 in 2005 and expects the number will be 143,000 in 2006, 144,000 in 2007 and 148,000 in 2008. The equivalent unemployment rates are 5.5%, 4.9%, 5.0% and 5.1%. Personally speaking, it's difficult to predict.

\* During the printing of this bulletin the Swedish Riksbank increased the Repo rate to 2%.

## GENWORTH MEASURES THE TEMPERATURE IN FOUR NORDIC MARKETS WITH FIVE HOT TOPICS (CONTINUED)



Q2 The prices of houses and tenant-owner apartments have steadily trended upwards the last couple of years, what do you think will happen to the nominal prices in the next two years? And in the next 3–5 years?

A2 The expression “tenant-owner apartments” do not have an obvious content in a Danish context. We have owner-occupied flats, where the price rise has been rather strong during the last years. We also have private cooperative housing, where the increase in the value of the flats as well as of the equity has increased a lot – but we have no price statistic for this tenure. I do not find that predicting on future house and flat prices can be estimated in a meaningful way, that’s why I never attempt to predict these things.

Q3 The interest payments in Denmark are deductible today. Is it possible that this will change in the next 3–5 years? If yes, in what way?

A3 The government has announced a “tax stop”, whereby the possibility of deducting interest expenditures for private persons should not be removed or even reduced. Actually, no arguments or serious political comments have been made to suggest this should be changed. However, 3–5 years is a long period, even though the actual government can be expected to be in seat for the next 3 years.

Q4 The local government property tax (land tax) today is between 1.6 and 2.4 per cent of land value. What do you think will happen to the property tax in the next 3–5 years?

A4 This land taxation has been very stable over many years. Now a “tax stop” rule is included. The land taxation might be expected to be unchanged many years ahead.

Q5 The Denmark national bank discount rate was increased with 0,25% to 2,25 in December 2005. What do you think will happen to the Denmark national bank discount rate in the next two years? And in the next 3–5 years?

A5 The market’s expectation is found in the yield curve and I never try to second-guess it.

### Finland

**Interview with Heikki A. Loikkanen, Professor of Urban Economics, Department of Geography, University of Helsinki**

Q1 The unemployment rate in Finland has been declining during the last 10 years and is today about 7%. What do you think will happen to the unemployment rate in the next 3–5 years?

A1 I expect that the unemployment rate could decline by 1-1,5 percentage points during the next 3–5 years.

Q2 The prices of houses have steadily trended upwards the last couple of years, what do you think will happen to the nominal prices in the next two years? And in the next 3–5 years?

A2 Almost impossible to predict, although I regard the continuation of increase in nominal house prices highly improbable. I don’t expect continuation of increase up to 5 years from now. Given the current high house price level and the chance of higher interest rate level (see A5), there is a 50/50 chance that they will be either on a current or somewhat lower level after 3–5 years time.

Q3 For housing loans the interest payments are deductible. Is it possible that this will change in the next 3–5 years?

A3 Despite some suggestion to limit deductibility further, I don’t expect major changes in 3–5 years perspective. Note that interest expense deduction system has changed over time, and is related to tax treatment of imputed income and capital gains, too. Namely, the current Finnish tax system offers three major concessions for households living in owner-occupied dwellings:

1. Non-taxation of imputed rental income
2. Non-taxation of capital gains from the sale of an owner-occupied dwelling, if the taxpayer or their family has used it as their primary dwelling (home) for at least two consecutive years
3. Deductibility of interest on the loan taken for the purpose of home purchase or improvement (a mortgage loan)

As for point 3, in the current system interest expenses are deductible from capital income. Thus, the deduction rate is the same as the tax rate on capital income. If interest expenses exceed capital income, the taxpayer is allowed to deduct the resulting tax deficit from their labour income tax liability in the form of a tax credit. In this situation the deduction rate is equal to the capital income tax rate.

## GENWORTH MEASURES THE TEMPERATURE IN FOUR NORDIC MARKETS WITH FIVE HOT TOPICS (CONTINUED)

Q4 There are local government property taxes in Finland today. What do you think will happen to the property tax in the next 3–5 years?

A4 Property tax is a “split-tax” in Finland, land and buildings have separate rates decided by municipalities within bands decided by the central government. These bands are specified separately for residential and non-residential land and buildings. The bands were lifted a little rather recently. Still property tax is a minor tax in Finland compared to other International markets. Within next 3–5 years there is 50/50 chance that present situation continues or the bands are lifted again. At municipal level, there will probably be increases within the bands, as most municipalities are not using maximum allowed rates.

Q5 The European Central Bank (ECB) key rate was increased to 2,25% in December 2005. What do you think will happen to the ECB key rate in the next two years? And in the next 3–5 years?

A5 Again, impossible to predict. A wild guess would be that having been at historically low levels, a somewhat higher level can be expected. Depends e.g. on ECB policies.

### Norway

**Interview with Viggo Nordvik, Senior Research Fellow, Norsk Institutt for Forskning om Oppvekst, Velferd og Aldring (NOVA).  
Research area: housing economics and mobility.**

Q1 The unemployment rate in Norway has increased slightly in the last year. What do you think will happen to the unemployment rate in the next 3-5 years?

A1 The unemployment rate over the next 3–5 years will probably go down but not very strongly.

Q2 The prices of houses and tenant-owner apartments have steadily trended upwards during the last couple of years, what do you think will happen to the nominal prices in the next two years? And in the next 3–5 years?

A2 The prices of housing in Norway are high. My judgement is however that it is not reasonable to say that we have any bubble in the Norwegian housing market. The potential for further growth is however not large. Over the next five years my guestimate is that the yearly rate of change in the aggregate house price index will be somewhere between –4% to 5%. There will probably be somewhat stronger fluctuations in some segments in the market.

Q3 The interest payments are deductible today. Is it possible that this will change in the next 3–5 years?

A3 It is highly unlikely that the deductibility of interest payments will be restricted within the next 5 years.

Q4 You have a local government property tax in Norway today. What do you think will happen to the property tax in the next 3–5 years?

A4 The municipalities decide themselves whether there should be any local property taxes. My judgement is that we, within the next 5 years, probably will see that local property taxes will be introduced in some new municipalities. The increase in the number of municipalities using a local property tax will probably not be very large. The assessed values of properties in the local property tax system are very low compared to market values. Furthermore, the assessments of taxable property values are a very touchy political topic and I do not foresee any changes here, even though an argument for such a change could be justified.

Q5 The Norwegian Key bank rate is 2,25%. What do you think will happen to the Key bank rate in the next two years? And in the next 3–5 years?

A5 Over the next two years I would expect the Norwegian Key bank to increase to 3.5–4%. The most probable scenario is that one would experience a further movement upwards over the next 3-5 years. It is very difficult to quantify the growth over such a long period of time.

### Summary

As you can read, our experts in each market do not expect the recent low interest rate environment to continue into the medium term. It is expected that interest rates will be increased by each national bank and in the case of Finland by the ECB. These expected increases are likely to cool house price increases, however expected improved employment levels should help counteract this. The tax position of mortgage debt is a variable that can substantially affect the housing markets as we witnessed in a number of markets in the late 1980's. There appears to be no immediate plans in each market to alter the status quo, however as each commentator points out, the political climate is a difficult one to predict. It will be interesting to continue to follow how these markets develop.

# SECURITISATION MARKET AND MORTGAGE INSURANCE



Much of the mortgage market in the Nordics is funded through what is known as “mortgage bonds”. These bonds are typically retained on the balance sheet of the originator and are issued from a legally separate entity within the bank, thus protecting their solvency status should the bank encounter financial difficulties. In most cases, these bonds are highly rated instruments (usually AA and above) reflecting the low risk of the collateral backing them. Most Nordic lenders limit the Loan-to-Value (LTV) ratios of the loans covering the bonds to around 80%. As the bonds are purely funding instruments and the risk of the loans remains with the originator, regulators in each country require that capital should be held against these assets. For loans that exceed 80% LTV, usually other methods of funding have to be found.

In other European markets, mortgage lenders use different methods to fund their lending programs and to reduce the amount of capital that they must hold against these assets. Residential Mortgage Backed Securities (RMBS) are widely used in the UK, Italy, Spain and the Netherlands. In a similar way to mortgage bonds, RMBS are backed by a pool of residential mortgages. In a standard RMBS transaction, this pool of assets is sold on to a so-called Special Purpose Vehicle (SPV). However, RMBS differ quite markedly from mortgage bonds in that the SPV is not consolidated by the bank selling the assets (i.e. it is held off the balance sheet), so there is no direct link to the credit of the originator of the portfolio. However, in many cases, the originator or seller of the portfolio will continue to perform functions in relation to the pool of assets. So to a certain but limited extent, the credit of the originating bank and its ability to perform its functions properly, can exercise an indirect effect upon the SPV.

The SPV funds the purchase price for the acquired portfolio by issuing bonds. The investors of these bonds or securities assume the risk of the portfolio by buying those bonds. Payments of principal and interest are distributed according to the so-called “Waterfall Principle”. Investors who buy the highest ranking tranche of the securitisation are entitled to be the first to receive any payments from

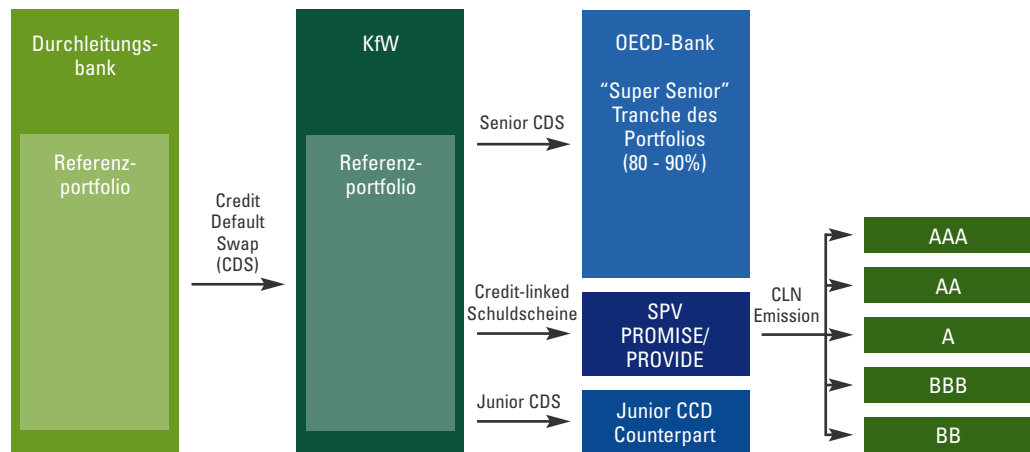
the pool of assets, thus they hold the lowest-risk securities. In reverse order, any losses in the portfolio will be distributed to investors according to an “inverse waterfall” which means that investors in lower-rated tranches will be the first to bear any potential losses. This form of securitisation is a so called True Sale and the securities issued are called Pass Through Notes, as income as well as losses are being passed through to investors according to their position in the transaction waterfall.

The origins of the RMBS market can be found in the US in the 1970s. The dominance of the Government sponsored Enterprises (GSEs), who benefit from an implied government guarantee should they face any form of financial crisis, has seen the structured RMBS market in the US develop a standardized commodity-like product. Unsurprisingly, reflecting the diverse nature of life in Europe, the younger European market has so far developed along different lines, with a plethora of securitisation structures appearing. One such structure: Synthetic Securitisation, that had previously only been used in Germany, has now been taken up by other lenders from the UK, the Netherlands and the Nordics.

## **Synthetic Securitisations – The PROVIDE Platform of KfW**

Synthetic Securitisations are an alternative route to True Sale RMBS. In a Synthetic Securitization the credit risk incorporated in a specified pool of assets is transferred for a pre-determined period to investors by closing a credit derivative contract between the parties. The investor is the so-called “Protection Provider” in this scheme. The investor bears any losses in the portfolio within an agreed framework and for the agreed duration of the contract. The assets (“The Reference Portfolio”) remain on the balance sheet of the originator in this case. The structure was developed in Germany as a way to overcome certain technical and legal constraints that were preventing True Sale Securitisations there. The program is run by KfW (Kreditanstalt für Wiederaufbau), a German State Agency fully guaranteed by the Federal Republic of Germany and its PROVIDE Program is the leading Platform for Synthetic Securitisation of Mortgage Assets in Europe.

## SECURITISATION MARKET AND MORTGAGE INSURANCE (CONTINUED)



Source: KfW

Regulatory Capital Relief and Risk Transfer for the underlying reference portfolio are the most important benefits of Synthetic Securitisations. As the assets remain on the balance sheet of the originator and only a small fraction of the volume is being sold in security-format for most such securitisations, the majority of the transaction is being executed synthetically via a Credit Default Swap.

Within a PROVIDE-transaction, the originator of the mortgages transfers the risk of the Reference Portfolio to KfW via a Credit Default Swap (CDS). KfW in turn does lay off the risk transferred via another (so called "mirror") CDS with a Third Counterpart and, to a small degree, via the issue of Credit Linked Notes, which transfer the incorporated risk to the relevant investors of those Notes.

The Credit Default Swap with KfW reduces the risk-weight of the portfolio to zero percent, according to the Risk Weight of claims on KfW. This is due to the explicit guarantee of the Federal Republic of Germany for KfW-debt, as stipulated in §1 KfW Law. KfW's Provide Program thus offers a maximum reduction in regulatory capital held against the portfolio securitised.

In addition to its advantage of providing zero risk-weighting, by providing a standardized program KfW also helped to create lower transaction costs for the participating financial institutions, amongst others by using standard documentation.

Of course, the KfW platform for risk transfer does not provide the level of funding that an RMBS transaction would also provide. German Pfandbrief issuers however, can use the KfW guarantee as eligible collateral that will allow them to include assets covered by the KfW guarantee into their Pfandbrief issues.

### Credit Enhancements

When analysing an RMBS-transaction, be it synthetic or True Sale, the main focus will be on the quality of the underlying pool of mortgage assets. The composition of the pool determines the forecast performance of the transaction in different stages of the economical cycle. The analysis, carried out by the Rating Agencies focuses on the following main factors:

- Types of borrowers and their income and employment situation
- Main characteristics of the mortgage loans
- The cycle and condition of the relevant property market
- The geographic concentration of the properties.

## SECURITISATION MARKET AND MORTGAGE INSURANCE (CONTINUED)

In the course of the rating process, the relevant agency determines the necessary level of Credit Enhancement to the transaction, in order to protect investors according to their position in the waterfall. The degree of such Credit Enhancement available to a tranche will depend on its rating corresponding to a more senior or junior position within the securitisation. Two factors mainly drive the results of the analysis: The default probabilities on a loan-by-loan basis, plus the severity of loss in the case of default of a borrower. The Rating Agency providing the analysis and tranching simulates different degrees of stress, assuming very substantial market-value-declines in the relevant property market and their effect on the portfolio as a whole. For the most senior tranche, the AAA-tranche of the transaction, an extreme stress scenario expressed by a severe Market Value Decline will be assumed – the so-called “AAA-stress” – in order to ensure that loss probability for AAA-investors is minimal and a loss would only occur under the most extreme circumstances.

Various types of Credit Enhancements are used in securitisation transactions, such as:

- Reserve account
- Originators guarantee
- Senior-subordinated structure
- Excess spread
- Overcollateralisation

These types of Credit Enhancements are provided by the originator of the loans, which reduces the remoteness of the originator from the SPV. As such, the Rating Agencies are generally quite stringent when analysing such enhancements, so as to protect the interests of the investors. This can make some of these enhancements expensive to finance.



### UCI 11 - Mortgage Insurance as Credit Enhancement

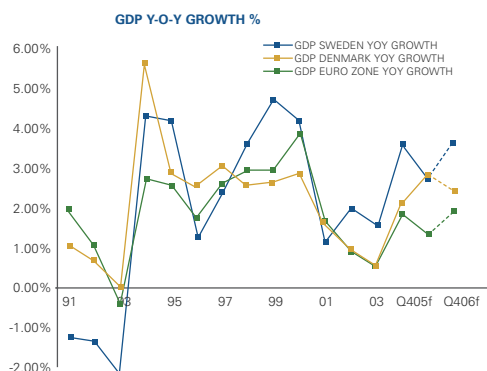
MI as a form of credit enhancement is now being adapted and used within the European securitisation markets. In November 2004, UCI 11, the eleventh RMBS-transaction of the Spanish originator UCI (Unión de Créditos Inmobiliarios Establecimiento Financiero de Crédito) used Mortgage Insurance as Credit Enhancement in Securitisation. The Rating Agency S&P evaluated the Policy of GE Mortgage Insurance as Credit Enhancement for this transaction, in addition to further internal structural features like Subordination and the Reserve Fund of the transaction. 38.65% of the loans were insured with a Flow Policy from Genworth Financial and were explicitly recognise as a positive factor for the rating of the transaction and correspondingly reduced the required subordination levels for the upper tranches of the securitisation (S&P Pre sale Report, Fondo de Titulizacion de Activos UCI 11).

### The Future

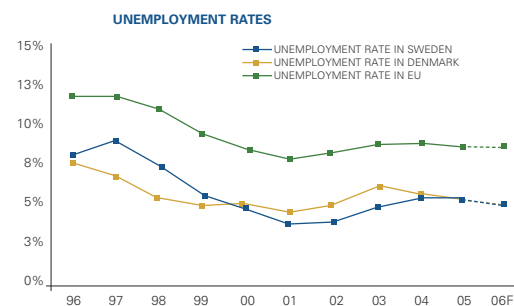
The structured finance market for mortgages in Europe will undoubtedly continue to change as the needs of borrowers, lenders and investors evolve over time. The changing regulatory capital weightings for mortgage assets under Basle II (for issuers and investors) will affect the whole cost/benefit environment of on-balance versus off balance sheet financing. Covered Bond laws, currently being developed in many European markets (including the Nordics) will also change the funding landscape for mortgage issuers. However, the risk of high LTV mortgage lending will remain with its associated risks and costs, and it will be up to lenders in each market to develop economic solutions to minimise and manage these variables.

*Mortgage Insurance (MI) has been used for the last 20 years in the US and Australia as an external third party way of providing credit enhancement to RMBS transactions. MI can apply on a loan-by-loan basis at origination, or can be applied to an already existing portfolio. By reducing the Loss Given Default variable for each loan, when aggregated to the portfolio level, the amount and size of subordinate tranches are reduced and hence the overall cost of the transaction to the originating lender is minimised.*

# MACRO ECONOMIC INDICATORS



Source: Konjunkturinstitutet, Finansministeriet



Source: SCB / Statbank

## GDP

The Swedish economy experienced a strong last couple of months in 2005 and all indications are pointing to an approximate GDP growth of 2,7% for the full year. The week Swedish Krona has positively impacted Swedish exports, which is expected to remain bouyant although the Krona will gradually strengthen its position. The forecasted GDP growth for 2006 will be in the region of 3,6%.

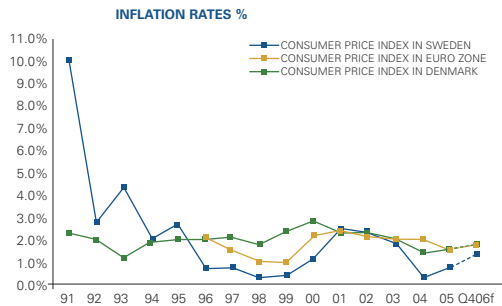
The Danish economy has during the last quarter of 2005 experienced a higher GDP growth than expected due to strong private consumption but also an increasing contribution from exports. The GDP growth for 2005 reached 2,8% but the forecast for 2006 is more moderate with expected growth of 2,4%.

## Unemployment

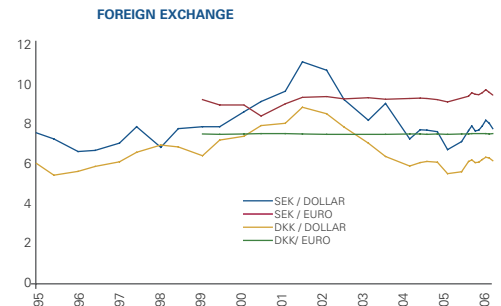
The Swedish unemployment rate did not rise as much as anticipated during the last quarter of 2005, on the contrary the demand for labour grew stronger. The unemployment rate was forecasted to end at 5,9% but the demand from the private sector halted the rate at 5,5% openly unemployed. Including numbers for vocational (employment) training courses attendees the unemployment rate in Sweden was 8,3% at the end of 2005.

Since 2003 the Danish unemployment rate has been steadily decreasing and now stands at 5,5%. The strong demand for labour in the private sector is expected to continue and be even stronger throughout 2006. The forecasted unemployment rate at the end of 2006 will be approximately 5,0%.

## MACRO ECONOMIC INDICATORS (CONTINUED)



Source: Riksbank / Finansministeriet



Source: Riksbank / Nationalbanken

### Inflation

After a long period of low inflation in Sweden the Consumer price index increased more rapidly during the second half of 2005 resulting in a CPI rate of 0,9% compared to 0,5% in 2004. The CPI growth rate is expected to be more moderate due to interest rate increases but will continue to increase and is forecasted to be at 1,5% by the end of 2006.

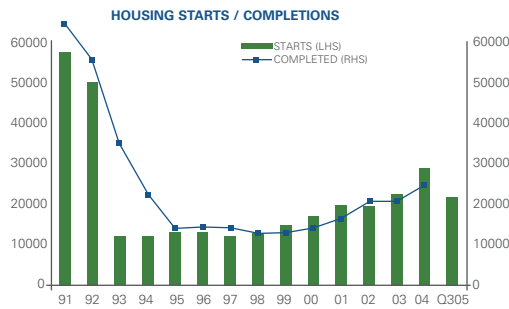
The inflation rate in Denmark has risen from a historical low in 2004 (1,5%) due to imported inflation and more expensive energy prices worldwide. The inflation rate increase stopped at 1,7% for 2005, but due to growing domestic inflation pressure in 2006 the rate is forecasted to be at 1,9% by the end of 2006.

### Exchange Rate

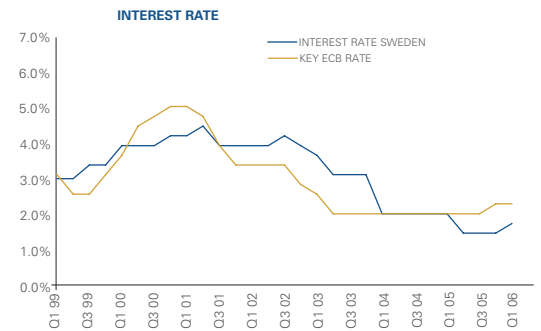
After an autumn which saw a weakening of the Swedish exchange rate, with a peak in November with a Dollar price of 8,25 SEK and a Euro rate of 9,65 SEK, the Swedish Krona has strengthened its position over the last two months. As a result of the recent interest rate increase from the Riksbank the exchange rate is expected to continue to grow stronger this year.

Along with the rest of the European monetary systems, the Danish Krona has seen a decline in value throughout the third and fourth quarter of 2005, although it has grown stronger relative to the dollar in the same period.. This increase in value is expected to slow during the spring and the forecasted exchange rate at the end of 2006 is expected to be 6,32 DKR per Dollar.

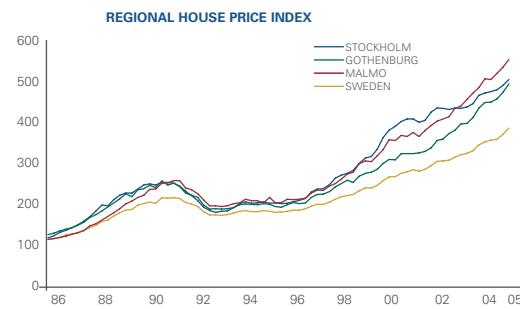
# HOUSING AND MORTGAGE MARKET SWEDEN



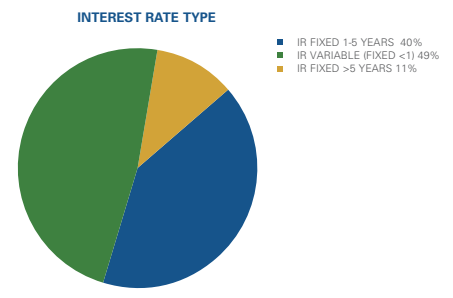
Source: SCB



Source: Riksbank / ECB



Source: SCB



Source: The Swedish Bankers' Association

## Starts and Completions

Housing starts in Sweden is showing a strong trend and although the fourth quarter data is not complete the full year is likely to be higher than 2004 (28,350). Up to the third quarter 21,600 house and flat's construction starts were recorded, representing an increase of 11% over 2003.

The completion data for the construction year of 2005 is not yet complete but a slight increase compared to 2004 (24,335) is expected although this increase will not be as pronounced as 2003 (+21,7%).

## House Price Index

The house prices in Sweden showed a broad increase across all regional markets during 2005 and the overall increase in the Swedish market is expected to end up in the region of +12%. The strongest growth of the three city regions was in Malmö (increase of approximately +14%) followed by Gothenburg (12% increase) and Stockholm (10% increase). Although the growth rate is expected to slow down somewhat in the aftermath of the interest rate increase, it is still expected to rise in 2006.

## Interest Rate

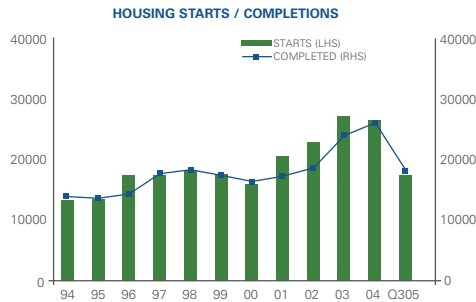
The Riksbank increased the Repo rate with 0,25%, with effective date 25th of January 2006 which was long anticipated by the market but only by 0,25 instead of the forecasted 0,5%. Although the Executive Board of The Riksbank made it clear in their statement that further increases of the Repo rate are likely to occur if the increase does not have the intended effect on the market as intended.\*

## Interest Rate Type

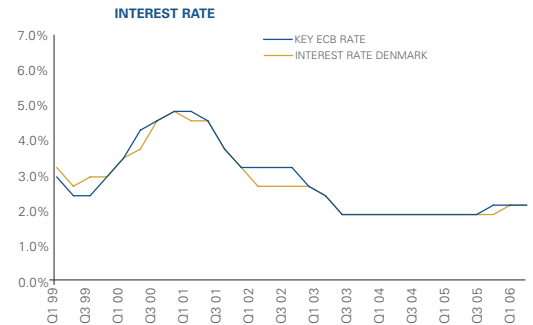
The latest data on interest rate type in the Swedish market is from August last year and all logic tells us that these figures have gone through major changes during the last couple of months due to the expected interest rate increase and the actual increase in question. The forecast is that at least 10–15% of the Borrowers with flexible interest rate will have moved over to a fixed rate compared to August 2005.

\* During the printing of this bulletin the Swedish Riksbank increased the Repo rate to 2%.

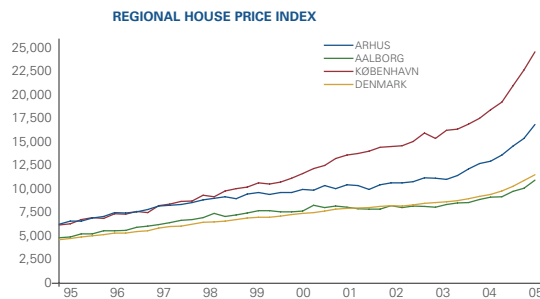
# HOUSING AND MORTGAGE MARKET DENMARK



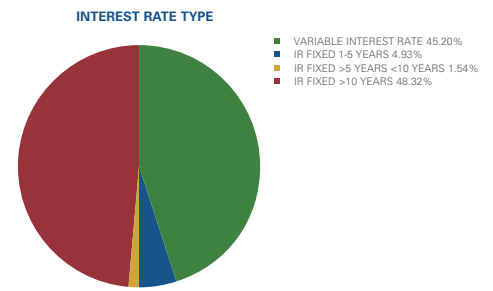
Source: Danmarks Statistik



Source: Danmarks Nationalbank / ECB



Source: Realkreditrådet



Source: Danmarks Nationalbank

## Starts and Completions

Housing starts in Denmark have after a slow first three-four month of last year picked up speed, but the third quarter data (17,555 starts) indicates that the full year result will be lower than in 2004. This will result in a two-year consecutive stagnation in the housing market in Denmark. Housing completion does not indicate as large a decrease as the starts but is likely to end on a lower rate than the two previous years.

## House Price Index

House prices in Denmark experienced a very strong market price growth in 2005 that resulted in an overall escalation in all regions with an average of +22%. The Copenhagen area has been the most explosive of the local regions with an incredible yearly growth rate of 33%. Århus did not end up far behind with a 30% increase though.

## Interest Rate

The Danish National bank increased the key interest rate by 0,25% in December 2005. The rate is closely linked to the European Central bank so this rise in key interest rate was a mirror movement of the ECB, who increased the European key interest rate that occurred at the same time. The forecast is that both the ECB and the Danish National bank will increase the key interest rate further this year.

## Interest Rate Type

Over the last two years Danish borrowers preference for mortgage products has seen a shift from long interest rate periods to more flexible interest rates. The latest available data shows almost an equal share of flexible interest rate products as the historical first choice, more than 10 years fixed interest rate product, on new lending to the private housing sector. This is a trend that is in the market to stay but it will be interesting to follow the consequences of the resent Danish interest rate increase in the market on borrowers future choice of mortgage products.

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### October 2006 – Genworth Financial Credit Risk Seminar in Stockholm

*Who Should Attend?* CEOs, CFOs and Credit Risk Managers from Lending institutions  
To pre-register your interest in this event, please e-mail: [cecilia.borgstrom@genworth.com](mailto:cecilia.borgstrom@genworth.com)

Back issues of this bulletin can be found on the Genworth Financial website,  
[www.gemieurope.com/se/17.html](http://www.gemieurope.com/se/17.html)

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Mortgage Insurance (MI) is a type of insurance designed to protect lenders in the event that a mortgage borrower defaults on a loan and the proceeds of the sale of the property are insufficient to pay the outstanding debt. Due to its credit protection features, MI extends home ownership opportunities to consumers by enabling house purchase with lower deposits. In addition, MI from a highly rated mortgage insurance company can facilitate the sale of High Loan To Value portfolios on the secondary market.