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Fitch Ratings: Nykredit's Deal With DCCA Aims to Increase Residential Mortgage Competition

Fitch Ratings-Frankfurt am Main/Stockholm-11 October 2024: Nykredit Realkredit A/S's (A/Stable) agreement with the Danish Competition and Consumer Authority (DCAA) to amend its Totalkredit partnership terms is neutral to its ratings, Fitch Ratings says. The agreement aims to increasing competition within the Danish mortgage market, but Fitch believes that it is unlikely to affect Nykredit's leading position in Danish mortgage lending.

Nykredit's high 45% market share in mortgage lending is underpinned by a contractual agreement, dated 2003, with 41 small and medium-sized banks that they will distribute mortgage loans exclusively for Totalkredit, a wholly-owned subsidiary of Nykredit. About half of Nykredit's loan book was originated through Totalkredit at end-June 2024. According to the DCCA, this agreement hampers market competition as there are punitive financial penalties if a partner bank switches to another mortgage loan supplier.

The planned amendments will allow partner banks to be acquired by another mortgage bank or to change mortgage loan supplier, while retaining future commissions on already distributed loans. We believe that material acquisitions of partner banks are unlikely in the short term. In addition, incentives for partner banks to replace Nykredit as their mortgage provider are limited for commercial reasons, including Nykredit's highly competitive offering. This is underpinned by low funding costs and discounts for borrowers, sponsored by Nykredit's main shareholder. Moreover, high integration between partner banks and Totalkredit should further reduce propensity to exit the partnership.

Partner banks will also be allowed to simultaneously distribute loans for Totalkredit and other mortgage providers. However, this will not be possible for Nykredit's largest main competitors, Jyske, Danske and Nordea, while the impact of other banks switching will be limited due to their small size.

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