

4'56: Plenty of talk, fewer buybacks

How much buyback activity should we expect in 4'56?

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Marketing communication

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- 4'56 bonds have shifted from OTR issues to buybacks and now trade at 95, sparking debate about buybacks
- A repeat of 2022 looks unlikely, as borrowers then had scope for substantial debt and payment reductions
- We expect moderate buybacks, mainly driven by housing transactions, with a smaller impact on OAS

The price of 4'56 bonds has fallen, allowing borrowers to reduce their outstanding debt by around 5% by buying back their 4'56 bonds and remortgaging into an F-kort loan or a 3Y bullet loan. However, the payment savings available from doing so are broadly unchanged from when the original loan was taken out. By comparison, potential payment savings increased by up to DKK 800 in 2022. Substantial buybacks in 4'56 would require further price declines without a significant increase in the cost of the alternative mortgage products (F-kort/3Y bullet loans). For now, we expect buybacks to stem mainly from ordinary housing transactions and amount to around 6-10% annually. At that level, buybacks would primarily support OAS on 4'56 rather than drive OAS performance.

Should we expect large buybacks now?

Back in 2022, sharp rises in rates and volatility triggered very substantial buybacks in callables. As soon as the price of 1% callables fell to a price of 90, allowing borrowers to cut their outstanding debt by just 10%, daily buybacks rose above DKK 2 billion. Similar waves followed at prices of 80, 75 etc (see the top-right chart). Could we see a similar wave of buybacks now? The short answer is no. 4'56 bonds are trading at around a price of 95, and the scope for reducing outstanding debt is still limited. Even if 4'56 prices fall further, however, we do not expect this to trigger buybacks on the scale seen in 2022.

Buybacks so far

4'56 bonds have shifted from issuance to buybacks. Redemptions associated with housing sales will therefore now register as buybacks. Before the bonds closed for issuance, mortgage lenders could offset these against current issuance. The lower chart on this page shows the change in the outstanding amounts of NYK, RD, NDA and JRK's 4'56 A/IO bonds since they closed for issuance on 1 September. Outstanding amounts have fallen by between 0.4% and 0.61% across all series since then. On an annualised basis, this implies buybacks of around 6.7-10%, broadly matching those seen in 4'53 during the first year after they closed for issuance.

The situation in 2022 was different

Even if 4'56 prices fall further from here, this will not necessarily trigger buybacks on the scale seen in 2022. First, the outstanding amount of callables was significantly larger than it is today, as many borrowers had opted to lock in historically low rates for 30 years. This meant that more borrowers had the opportunity to reduce their outstanding debt than is the case today.

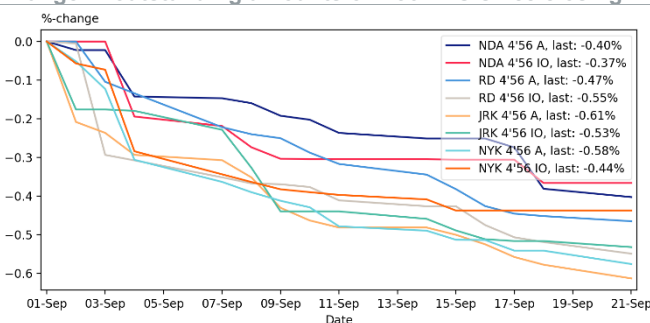
Large buybacks in 2022 already at a price of 90



Shows price level and buybacks for NYK 1'50.

Source: Nykredit Markets

Change in outstanding amounts of 4'56 A/IO since closing



Shows the decomposed issuance of callables.

Source: Nykredit Markets

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Second, buybacks in 2022 were driven by the scope to reduce both outstanding debt and mortgage payments. The top-right chart illustrates the immediate after-tax payment saving from buying back a fixed-rate 1% loan of DKK 1 million and refinancing into either a 3Y bullet loan or an F-kort loan. In mid-2021, the savings from choosing a 3Y bullet loan or an F-kort loan over a fixed-rate mortgage were around DKK 1-200. During 2022, these increased to almost DKK 1,000 as falling 1'50 prices allowed borrowers to reduce their outstanding debt. Meanwhile, FRN coupons in particular did not rise significantly, even at the mid-2022 coupon fixing, leaving the remortgaging alternatives attractive in terms of immediate mortgage payments.

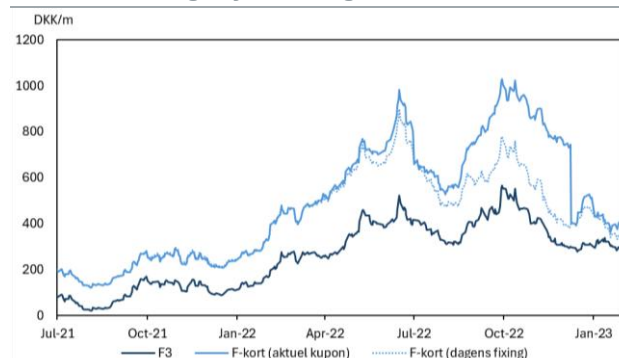
So far, the decline in 4'56 has not materially increased the payment savings available to borrowers who took out a 4'56 mortgage in August 2025 compared with the savings available at origination. A borrower who took out a 4'56 mortgage in August 2025 and buys back the bonds today to switch to an F-kort loan would achieve the same payment reduction as they would have secured by choosing an F-kort in the first place. This assumes that the savings are calculated using today's fixing (the dashed light blue line), rather than the latest coupon fixing, which pre-dates the rise in rates (the solid line). The payment savings from replacing a 4'56 mortgage with a 3Y bullet loan have actually declined since August 2025.

In our view, borrowers who originally chose a 4'56 mortgage may have done so either because they prefer a fixed rate or because this was the mortgage type for which they could obtain credit approval. In the former case, we doubt they would switch to an adjustable-rate mortgage now. Where credit approval was the deciding factor, however, borrowers may be inclined to buy back their bonds if increased home equity now allows them to qualify for a FRN-funded loan. For example, a borrower with an LTV ratio of 80% at origination would have seen it fall to 64% following a 25% increase in the value of their home. A reduction in outstanding debt of 6-7% would then be sufficient to bring their LTV ratio below 60%, potentially allowing them to qualify for riskier mortgage types, such as FRN-funded loans. This is likely to be relevant mainly to borrowers in the Greater Copenhagen area, leaving too few borrowers to generate buybacks on the scale seen in 2022.

What would it take?

Larger-scale buybacks in 4'56 would first require prices to fall further from current levels. This would also need to happen without a significant increase in the cost of the remortgaging alternatives. Prices would therefore need to fall on the back of rising volatility, wider OAS and higher long-term rates, without a corresponding rise in short-term rates. For now, we consider it most likely that buybacks will continue at their current pace, equivalent to 6-10% annually. In that scenario, we estimate that buybacks could generate at most a couple of basis points of OAS performance during periods of peak activity. Our central expectation, however, is that buybacks will primarily support OAS on 4'56. A sharp increase in buybacks could quickly generate stronger OAS performance — potentially up to 10bp using 2022 as a benchmark — but we struggle to see buybacks reaching the levels recorded in 2022.

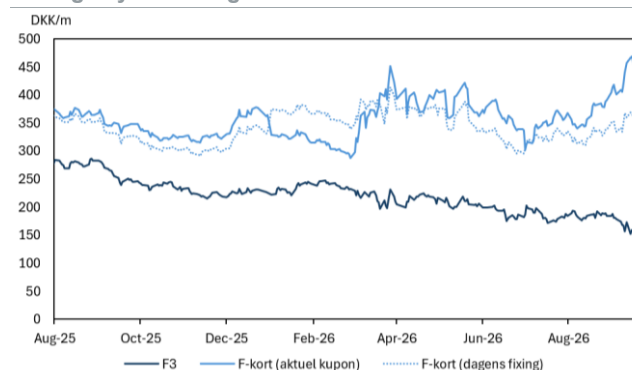
Immediate savings by switching from 1'50 to FRNs/bullets



Shows monthly after-tax payment savings from replacing a DKK 1 million mortgage funded by 1'50 A bonds with a FRN-funded loan/3Y bullet loan (by buying back the underlying 1'50 A bonds). The calculations assume a repayment loan.

Source: Nykredit Markets

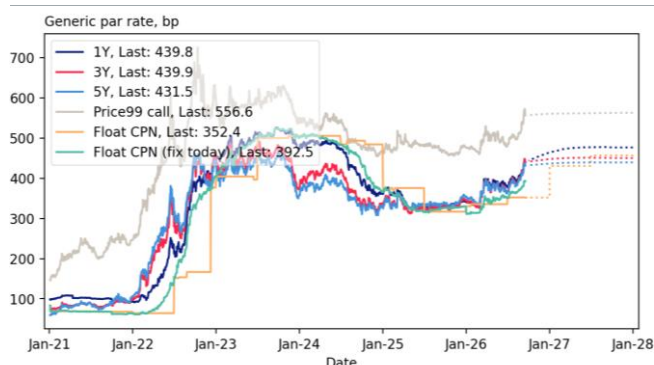
Savings by switching from 4'56 to FRNs/bullets



Shows monthly after-tax payment savings from replacing a DKK 1 million mortgage funded by 4'56 A bonds with a FRN-funded loan/3Y bullet loan (by buying back the underlying 4'56 A bonds). The calculations assume a repayment loan.

Source: Nykredit Markets

Costs of different types of loans, incl administration margins and other charges



The green line shows the costs of a FRN-funded loan based on today's fixing.

Source: Nykredit Markets

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As at 13.12.2024

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

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