

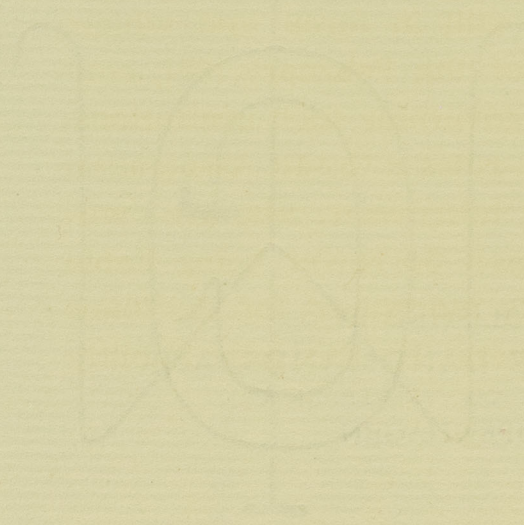
THE CREDIT ASSOCIATIONS
OF DENMARK

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COPENHAGEN

THE ASSOCIATION

OF THE

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THE CREDIT ASSOCIATIONS OF DENMARK

In Denmark the name of Credit Association (Kreditforening) is applied to financing institutions giving loans against first mortgage in real estate, while institutions granting loans against second mortgage are termed Hypothec Associations (Hypothekforeninger). This nomenclature is typically Danish, other Nations generally using the word Hypothec-Bank or Association for what is termed Kreditforening in Denmark.

The legislative basis for the Danish Credit Associations was provided by the Act of 20th June 1850, which is still in force and which, jointly with the Act of 19th February 1861, contains the main rules governing such institutions.

According to these rules a Credit Association is an organization of borrowers, who are owners of real estate, each borrower being liable with the entire estate mortgaged for the loans granted to all borrowers. By this joint liability

the best possible security is given to the lenders and consequently the bonds of the Credit Associations have become the securities best appreciated by Danish investors, while Danish farmers avail of the Credit Association facilities to such an extent that one half of their total mortgage debt in real estate consists of Credit Association loans.

Apart from the said fundamental provision of joint liability of the borrowers, the Act of 1850 provides that each individual loan must at no time exceed 60 % of the value of the estate mortgaged, and that, besides payment of the interest stipulated, an annual part payment of the loan must be made.

As a rule the payments in excess of interest are the following:

- 1) Once only, a payment of 2 % of the amount of the loan for the reserve fund, and
- 2) Each year, an amount for part payment (as a rule the period of amortisation is about 60 years) and a contribution to cover administration expenses.

Finally the Act contains the obvious provision that the amount of Credit Association bonds in circulation must at no time exceed the total amount of the mortgage bonds given by the borrowers.

Besides making the said provisions the Act secures for the Credit Associations certain privileges, of which the most important is that their bonds may be »bearer« bonds and may be issued and transferred free of stamp duty. Further a Credit Association has easier access than usually provided by Law to have the mortgaged property sequestrated. The confidence of the State in the Credit Associations is evidenced by the fact that the Act permits investment in Credit Association bonds of means belonging to minors and public institutions.

The procedure in contracting a loan in a Credit Association is as follows: When an estate owner wishes to become a member of the association in order to obtain a loan, the association has his estate valued and decides the amount of loan to be granted him on the basis of this valuation. The borrower then issues a stamped bond to the Credit Association; this bond is recorded by the Court and in exchange for same the borrower receives from the Credit Association a number of their »Cash bonds« (Kasseobligationer) of a total face amount corresponding to the amount of the borrower's bond. The tenor of the said Cash bond is alike for all borrowers in the association (or in the series — compare below) the amount is in lump fig-

ures (Kr. 1000.-, Kr. 500.-, etc.) and the bonds may be sold by the borrower in the open market, as the bonds of all Credit Associations are quoted daily on the Copenhagen Exchange. The bonds cannot be terminated by notice on the part of the holder, but are redeemed by the Credit Association by drawings in the same proportion as the borrowers repay their debt to the Association.

By this arrangement a number of advantages are secured for the holders of the Credit Association bonds apart from the good security above mentioned. As the bonds are quoted every day the holders may always know the value of their securities, and as these are bearer bonds, they are easily disposed of in case the holders should desire to make their capital available. Further the holders have no difficulty in obtaining their interest, as this is paid by the Credit Association. The creditors have no direct transactions with the debtors and consequently are not encumbered by inspection of the property mortgaged, etc. Finally the holders may realize a not inconsiderable profit by the semi-annual drawing of bonds for redemption at par.

By the provisions of the Act of 1850 the Credit Associations were organised in such a way,

that all borrowers without exception were jointly liable for all the loans of the association. This system, however, proved to have certain drawbacks for creditor and debtor alike. Old borrowers would not be justly treated, if new borrowers were immediately made part owners of the reserves etc. accumulated. The drawing chance would be quite incalculable, if drawings were made out of all bonds collectively. These drawbacks were removed by the Act of 1861, which permitted the Credit Association to divide their loans (and bonds) into series. A series would comprise the loans granted in the course of a certain period, say 5 or 10 years, and the joint liability would thus be limited to the series in question, as soon as it has reached a figure decided by Law. As a series grows older and the amount of the drawings increases, the greater will be the drawing chance for the remaining bonds, and consequently the price of the bonds will rise fairly regularly in proportion to the age of the series.

As a further development of this idea, the series may again be divided into sections, the liability between the sections of the same series being secondary only.

Since the Act of 1850 a total number of 13 Credit Associations have been established in

this country, and of these 12 still exist, only one being liquidated. This happened already in 1857, and the liquidation did not result in any loss to the bond holders, who were covered in full.

Some of the Credit Associations are limited to certain districts, others are limited either to rural or urban property, one operates with industrial property only and finally two of the associations give loans in small holdings only. The latter, which were established according to a special Act of 28th May 1880, are privileged. Apart from the usual facilities, the State contributes to the administration expenses and guarantees the payment of interest on the bonds issued by the associations. Only property valued at less than Kr. 20 000.- (originally in 1880 Kr. 4 000.-) may be entered into these associations, and the amount lent must not exceed 50 % of the valuation. As a consequence of these provisions the Small Holders Credit Association bonds are considered a still safer investment than the other Credit Association bonds and have therefore attracted special interest abroad.

The Small Holders Credit Associations have always considered it one of their objects to increase the market for their bonds, and, in order to facilitate the sale abroad, the bonds of most of the series are issued in Sterling and

Reichsmark besides Danish Kroner, and are payable in London, Berlin, Hamburg and Frankfurt ^a/_{M.}

For completion it might be mentioned, that an attempt was made a number of years ago to establish a Central Credit Association, the Bonds of which were to afford a more uniform stock for purchases and be based on all the Credit Associations together, but the idea met with opposition, especially on the part of the larger Credit Associations, who contended, that each association operates best independently; it was therefore not carried out. Finally it may be pointed out, that by Act of 1906 pertaining to the establishing of Kongeriget Danmarks Hypothekbank (The Kingdom of Denmark's Hypothec-Bank), the Government has placed its stamp on the Danish Credit Associations.

The aim of the bank is to issue loans abroad in order to secure the possible advantages of the foreign money markets.

The loans are obtained by means of bonds issued by the Bank, which are secured partly by a Fund deposited by the Government and partly by bonds of the open series of the Danish Credit Associations, of which purchase takes place according to fixed rules.

During the whole course of the Danish Credit

Associations' progress in repute and importance, they internally extended to their members constantly improved conditions and externally they gained unprecedented confidence, so that the security, they afford the capitalist, even in the minds of investors abroad approximates to that of the Government. The Danish Credit Associations may therefore be said to have fulfilled their object in an extremely satisfactory manner, and have undoubtedly contributed no insignificant part to the economic prosperity of the Country.

SOME PARTICULARS

The following figures will show the growth
of the Credit Associations:

Year	Total mortgages held (less part payments made) Kr.	Reserves Kr.
1852	2.489 000	27 700
1860	34.254 000	750 200
1870	68.375 000	2.417 800
1880	195.372 000	7.980 900
1890	451.613 000	14.860 300
1900	744.111 000	26.815 100
1913	1 606.342 000	66.753 100
1918	1 856.027 000	86.216 000
1925	2 877.281 000	119.750 000

These figures are specified overleaf for the sep-
arate Credit Associations, with the addition of
other particulars.

The total circulation of bonds at the various
rates of interest:

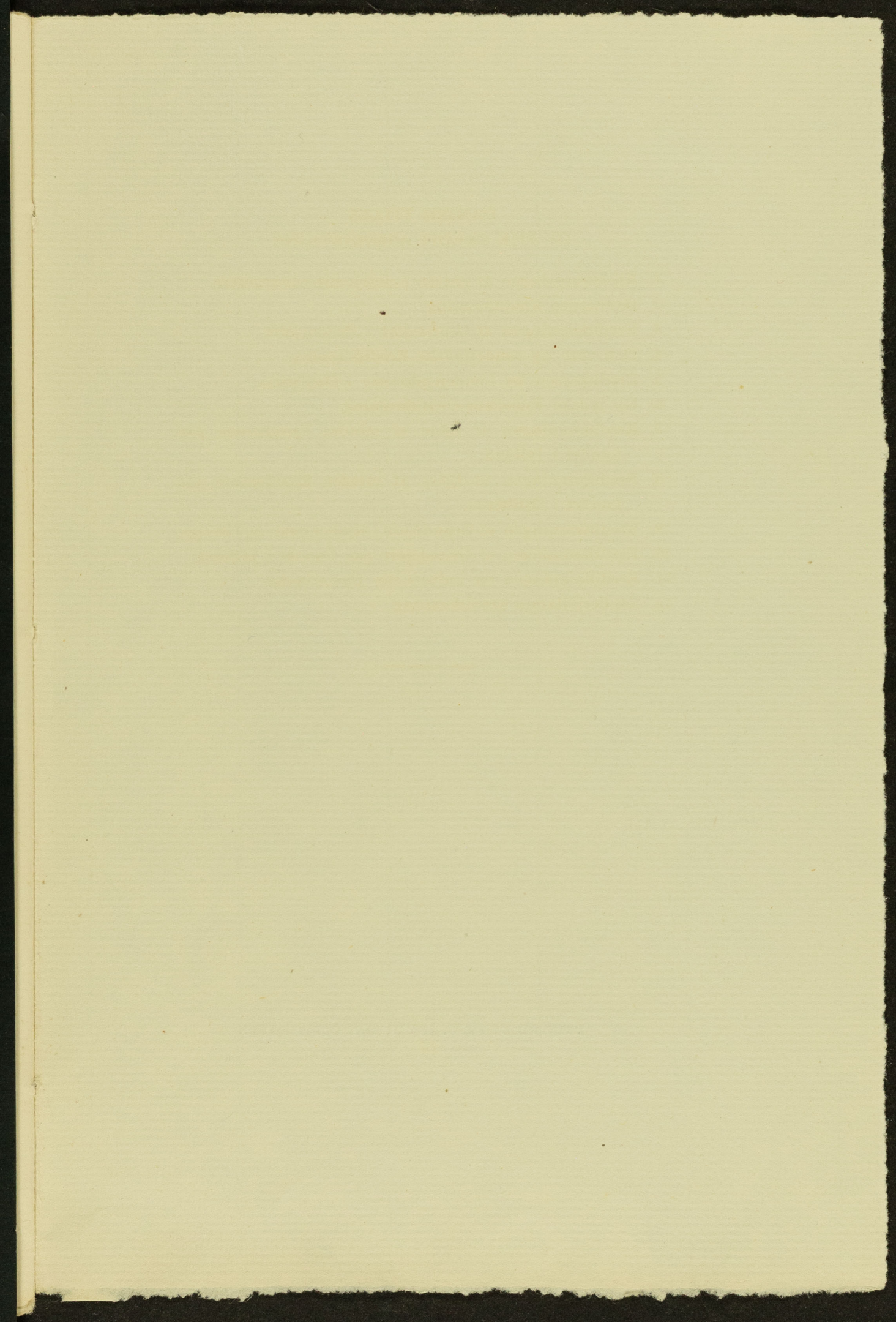
	Kr.
3 pCt. p. a. ...	3.033 000
3 ¹ / ₂ - - - ...	280.827 000
4 - - - ...	798.652 000
4 ¹ / ₂ - - - ...	1 771.660 000
5 - - - ...	22.400 000

1. Jydske Land Kreditforening (The Credit Association of Landed Estates Owners in Jutland)
2. Østifternes Kreditforening (The Credit Association of Property Owners on the Danish Islands)
3. Fynske Kreditforening (The Credit Association of Property Owners on the Island of Fuenen)
4. Vest- og sønderjydske Kreditforening (The West and South Jutland Credit Association)
5. Creditkassen for Landejendomme (The Credit Office for Landed Estates on the Islands)
6. Ny jydske Kjøbstads Kreditforening (The new Credit Association for Jutland Towns)
7. Jydske Husmands Kreditforening (The Credit Association of Proprietors of Small Landed Estates in Jutland) ..
8. Østifternes Husmands Kreditforening (The Credit Association of Proprietors of Small Landed Estates on the Islands)
9. Københavns Kreditforening (The Credit Association of Landlords in Copenhagen and Environs)
10. Jydske Grundejer Kreditforening (The Credit Association of Property Owners in Jutland)
11. Kreditforeningen for industrielle Ejendomme (The Credit Association for Industrial Property)
12. Sønderjyllands Kreditforening (South Jutland Credit Association)

Established	Number of Loans	Total mortgages held (less part payments made) Kr.	Reserves Kr.
1851	50 170	551.314 000	30.124 000
1851	57 281	821.263 000	26.612 000
1860	9 555	82.953 000	2.501 000
1861	23 436	274.730 000	13.349 000
1866	15 049	196.164 000	6.089 000
1871	18 764	224.433 000	9.947 000
1880	85 324	245.415 000	10.651 000
1880	31 422	50.340 000	2.115 000
1882	4 366	201.293 000	9.438 000
1893	11 669	91.888 000	3.931 000
1898	889	19.395 000	2.327 000
1920	5 689	118.093 000	2.666 000
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Total	313 614	2 877.281 000	119.750 000

DANISH TITLES
OF THE CREDIT ASSOCIATIONS

1. Kreditforeningen af jyske Landejendomsbesiddere.
 2. Østifternes Kreditforening.
 3. Kreditforeningen af Grundejere i Fyens Stift.
 4. Den vest- og sønderjydske Kreditforening.
 5. Creditkassen for Landejendomme i Østifterne.
 6. Ny jyske Kjøbstads-Creditforening.
 7. Kreditforeningen af Ejere af mindre Ejendomme paa Landet i Jylland.
 8. Kreditforeningen af Ejere af mindre Ejendomme paa Landet i Østifterne.
 9. Kreditforeningen af Grundejere i Kjøbenhavn og Omegn.
 10. Kreditforeningen af Grundejere paa Landet i Jylland.
 11. Kreditforeningen for industrielle Ejendomme.
 12. Sønderjyllands Kreditforening.
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