

EBRD's Mortgage Financing Activities

*UN Habitat / EFBS Joint Congress:
Housing Finance in Emerging Markets –
Experiences and Challenges*

23 September 2004

Nick Kerigan, Principal Banker



Section One

- *EBRD*
- Approach to Mortgage Finance



What is the EBRD?

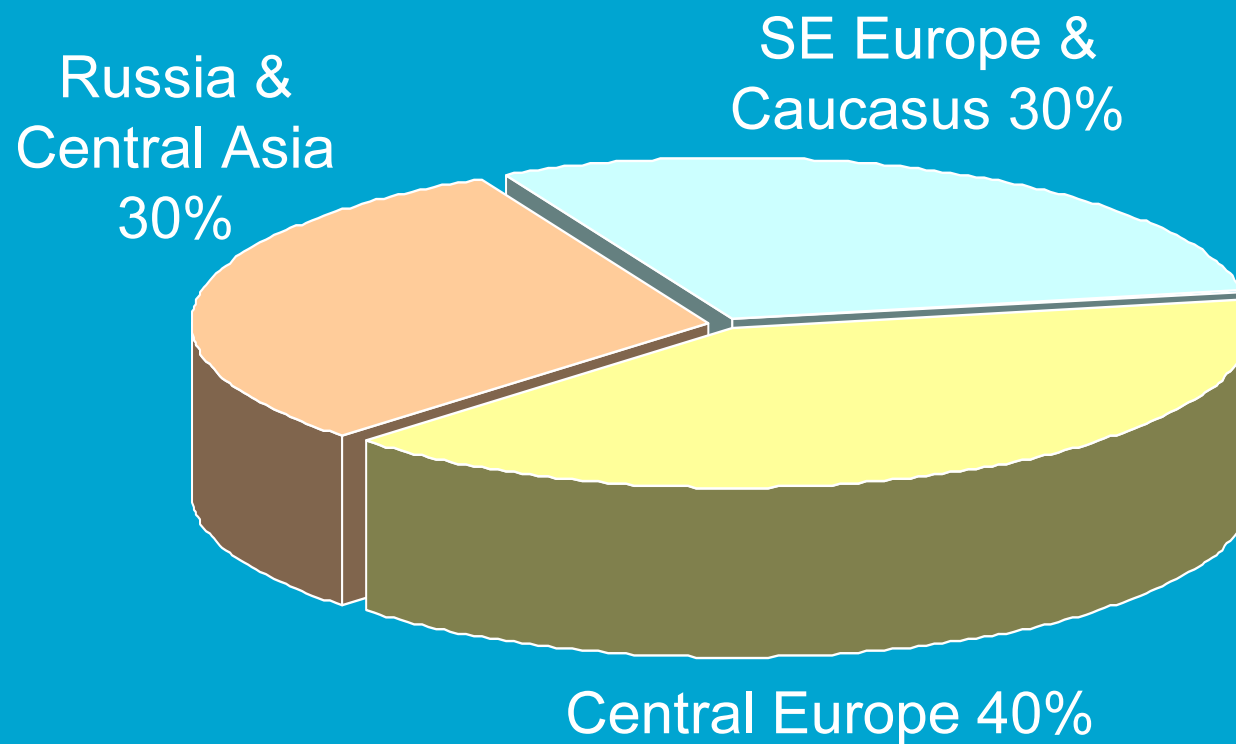


- International financial institution, promotes transition to market economies in 27 countries from central Europe to central Asia
- Owned by 60 countries and two inter-governmental institutions
- Capital base of €20 billion

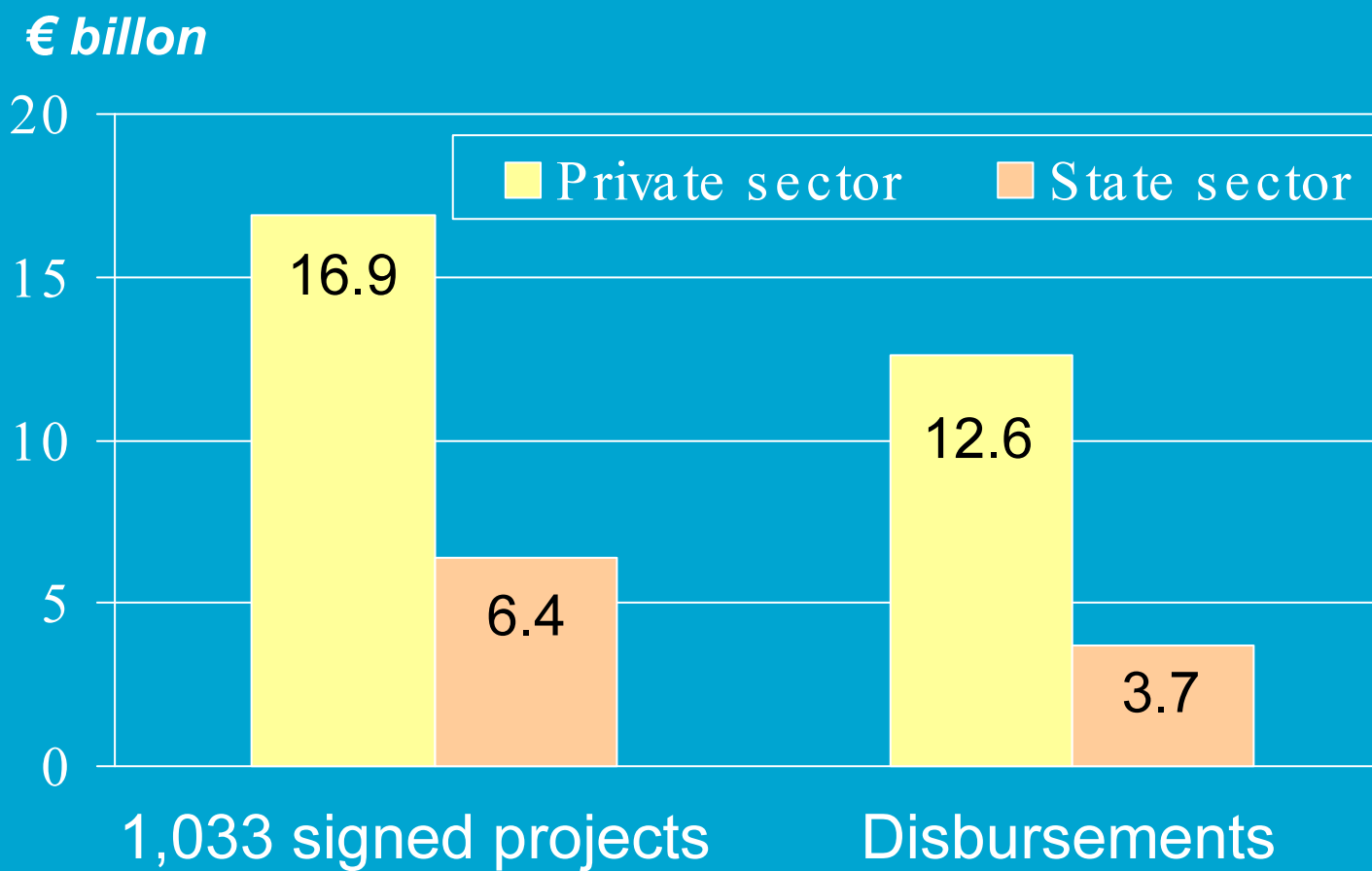


Active in all countries of operations

Cumulative commitments €23.4 billion

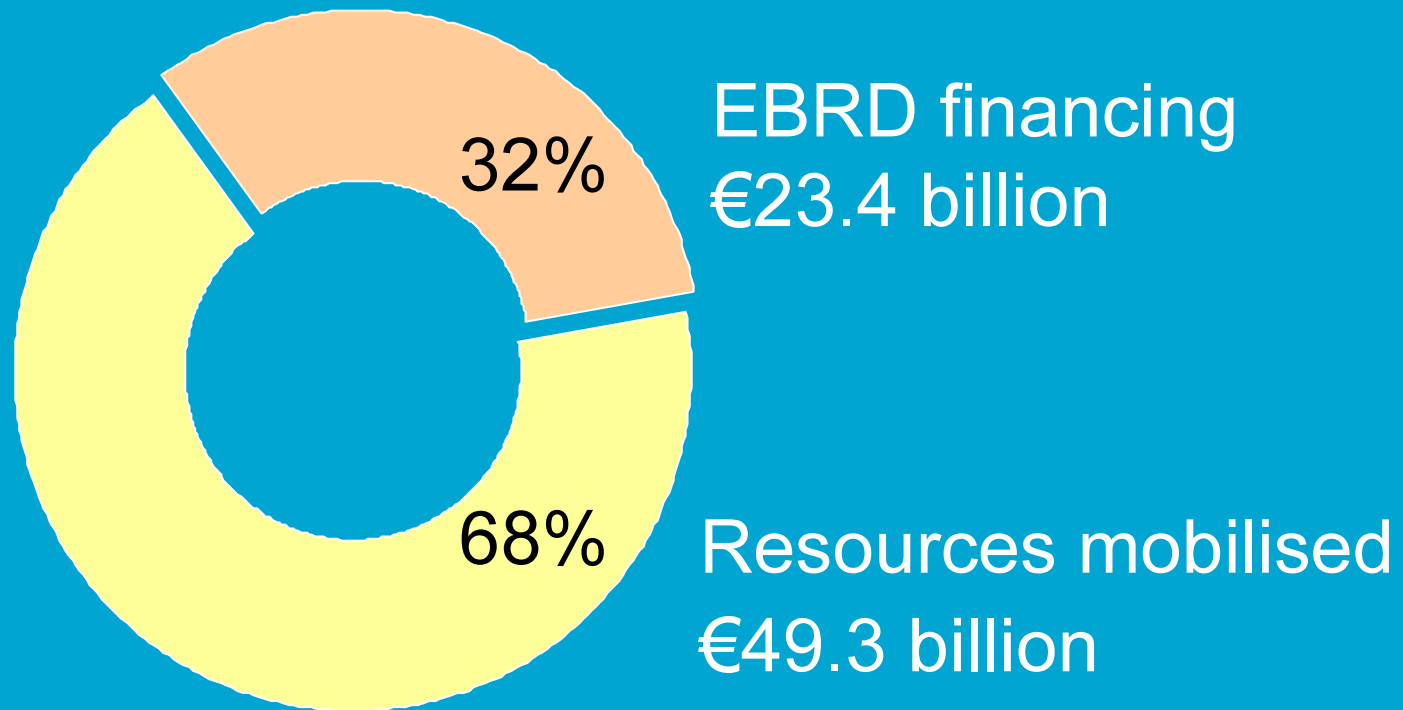


Project portfolio

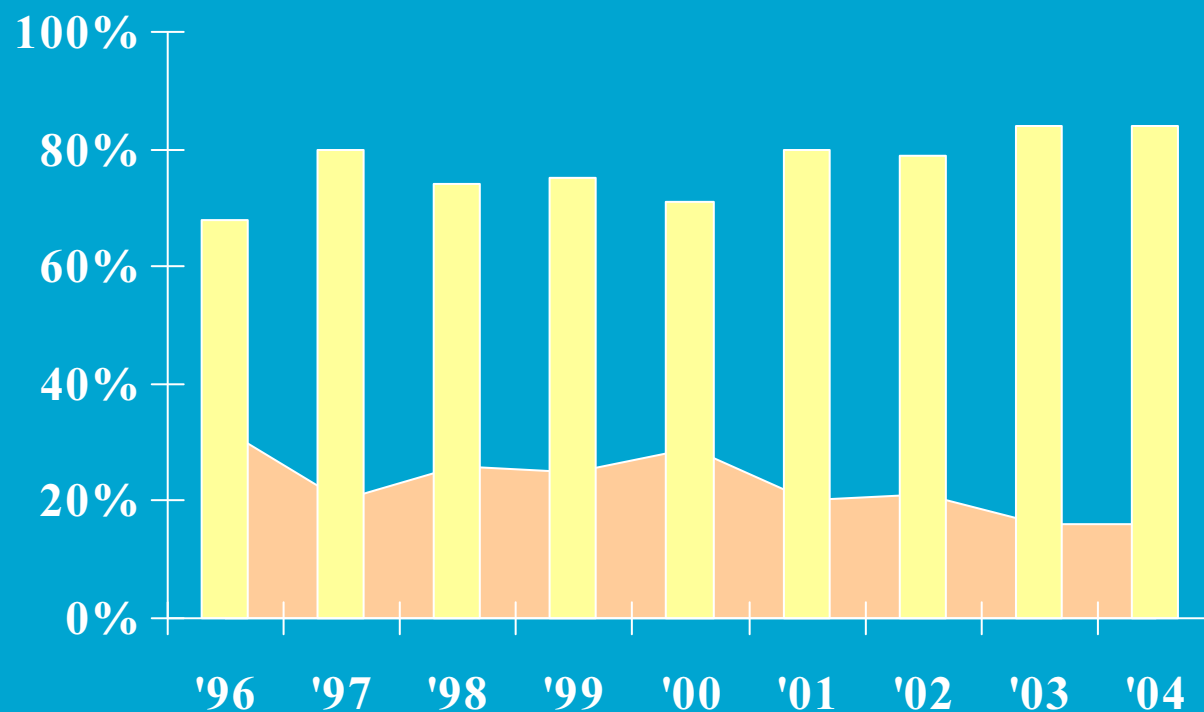


Attracting co-investors triples EBRD's investment

Total project value €72.7 billion



Financing via intermediaries



- Reaches SMEs
- Strengthens banks and capital markets

■ Financing via intermediaries
■ Direct financing



Sound banking principles

Each project requires:

- Careful assessment of risk / rewards for all parties
- Commercial viability
- Good prospect of returns



Section Two

- The EBRD
- ***Approach to Mortgage Finance***



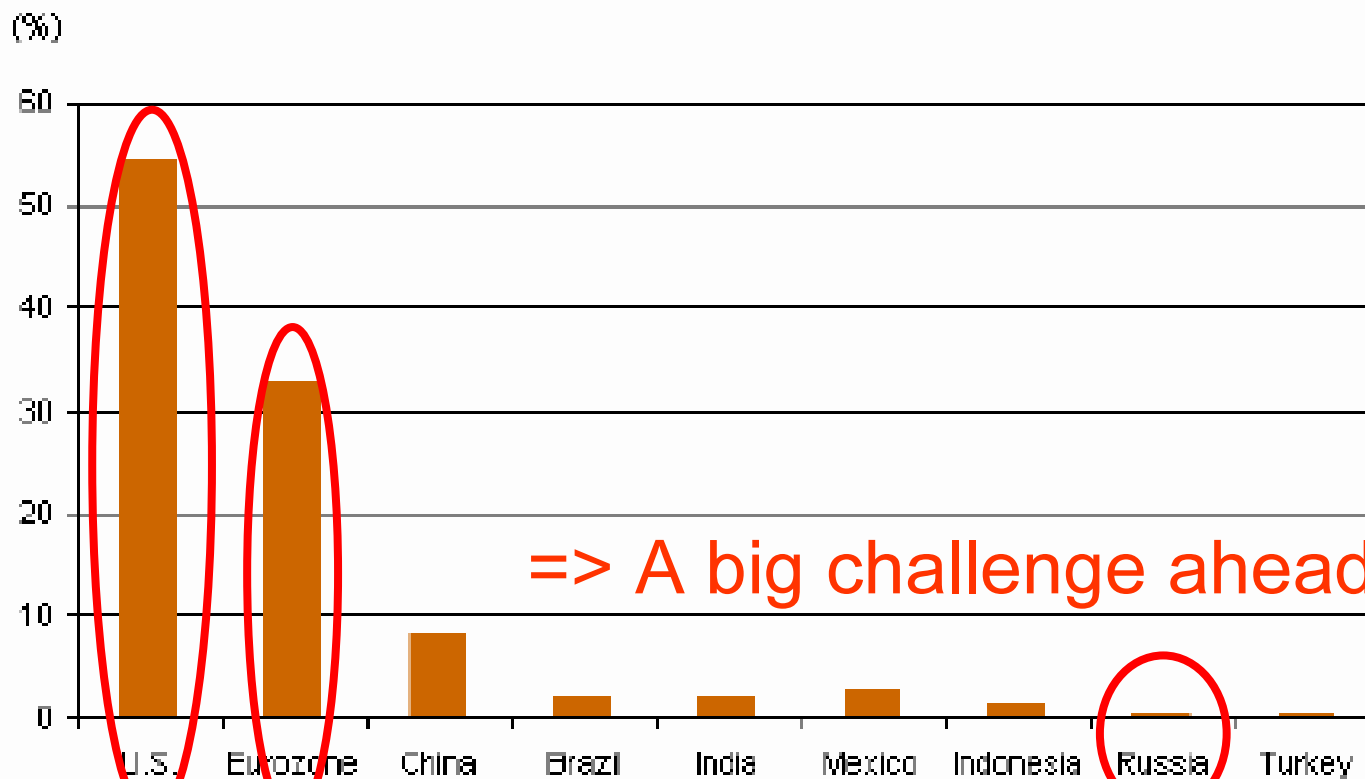
Mortgage markets in the region

The Bad News

- Mortgage finance is developing but is still small relatively to GDP
- Even the most developed markets are a long way below EU average (e.g. at end-2003, total residential mortgage lending in EU represented c. 40% of GDP)
- Reasons include lack of:
 - complete legal and regulatory frameworks
 - efficient administration e.g. land registries
 - long term finance for banks
 - secondary market mechanisms



Estimated Mortgage Lending to GDP*



*Data comprises statistics from 2002-2003. Source: Standard & Poor's.



Mortgage markets in the region

The Good News

- Reason to be optimistic:
 - legal developments – many countries are putting in place new mortgage and secondary market laws
 - primary lending – based on high levels of home ownership
 - rapidly increasing activity in Central Europe (e.g. Hungary)
 - swift start in South-Eastern Europe (e.g. doubling of market in Romania in 2003 but only at 6.9% of GDP)
 - slower steps in CIS and Central Asia but new interest in Russia, Kazakhstan and Ukraine
 - secondary markets – interest in secondary market mechanisms following success in Hungary and Bulgaria



EBRD strategy

- Developing the residential mortgage market is an important part of developing fully functioning market economies

EBRD will provide practical support on all aspects of development to build functioning mortgage markets

- Legal and regulatory framework: *putting the foundations in place*
 - technical co-operation to formulate workable laws
 - policy dialogue with relevant authorities



EBRD strategy

- Primary mortgage lending: *filling the funding gap*
 - provide long-term finance to banks and non-banks, plus equity capital to specialist companies in selected cases
 - technical co-operation for banks that need skills
- Secondary market development: *creating sustainable financing mechanisms*
 - support the development of specialised mortgage institutions and agencies / institutions
 - participate in bond or MBS issues to encourage other purchasers and / or provide credit enhancement



EBRD Strategy

- Need to plan ahead :
 - apart from IFIs such as EBRD, there are few sources of long term funding to match the terms of mortgage loans
 - development of secondary markets is needed to ensure **sustainability** of lending, either through:
 - mortgage bonds – secured by a pool of mortgages but ultimate risk remains on the primary lender
 - mortgage backed securities (securitisation) – an SPV buys the mortgages and issues securities
 - creating secondary markets means planning now e.g. **standardised lending**



EBRD projects and pipeline

- Over €400 million of signed loans to 19 financial institutions in 9 countries
- €90 million approved to date in 2004, pipeline of over €220 million
- New projects include both primary finance and development of bond markets



EBRD Mortgage Portfolio (as at 31 August 2004)

| Country | Number of Transactions | Type | Value EUR mln. |
|------------|------------------------|-------------|----------------|
| Bulgaria | 1 | Debt | 15 |
| Croatia | 4 | Debt | 156 |
| Estonia | 3 | Debt | 20 |
| Kazakhstan | 1 | Debt | 4 |
| Poland | 1 | Bonds | 54 |
| Romania | 4 | Debt/Equity | 86 |
| Russia | 2 | Debt | 40 |
| Serbia | 2 | Debt | 20 |
| Slovenia | 1 | Debt | 10 |



EBRD Mortgage Pipeline (as at 31 August 2004)

- Bulgaria - 3 transactions
- Hungary - 1 transaction
- Kazakhstan - 2-3 transactions
- Poland - 4 transactions
- Romania - 6 transactions
- Russia - 1 transaction
- Serbia - 1 transaction
- Ukraine - 5 transactions
- Moldova - technical assistance



EBRD recent projects

Banca Comerciala Romana, Romania

- Supporting an existing commercial bank developing its mortgage finance business
- Size: USD / EUR 50 m multi-currency facility
- Use of proceeds: around 6,000 mortgage loans extended through retail mortgage lending through a nationwide network of 285 branches and agencies

*Now fully lent by BCR,
plus mortgage loans to three other Romanian
financial institutions signed in 2003*



From here to here



Financing home improvement as well as new purchases promotes affordability



EBRD Recent Projects

Rheinhyp-BRE Bank Hipoteczny, Poland

- Supporting the issuance of mortgage bonds as a financing tool for real estate development
- Partners: Rheinyp-Rheinische Hypothekenbank AG and BRE Bank, both controlled by Germany's Commerzbank AG
- Bonds are subject to 'quality criteria' including minimum rating, minimum issue size, minimum amount to other investors

9 successful bond issues by RheinHyp-BRE, including the first public bond issue in April 2003, RHB bonds 80% purchased by institutional investors



EBRD Recent Projects

Mortgage Minimum Standards Manual

- Standardisation is key for secondary market development
- Up to now, EBRD has reviewed sub loan documentation to ensure it is capable of securitisation, now going further EBRD has created a Manual for future borrowers to follow
- Manual was developed with the support of consultants from the Bank of Ireland who had led its first securitisation
- Manual will ensure minimum standards for underwriting criteria, loan documentation and data collection
- Discussions underway regarding implementation



Conclusions

- Developing the residential mortgage market is an important part of developing fully functioning market economies
- This requires a working legal framework, skilled lenders and the development of secondary markets to ensure sustainable funding
- EBRD is active in the development of mortgage markets with a substantial portfolio and pipeline of mortgage loans
- EBRD is keen to make sure that loans it finances are capable of use in the secondary markets



EBRD - Contact Details

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EBRD's Housing Financing Activities

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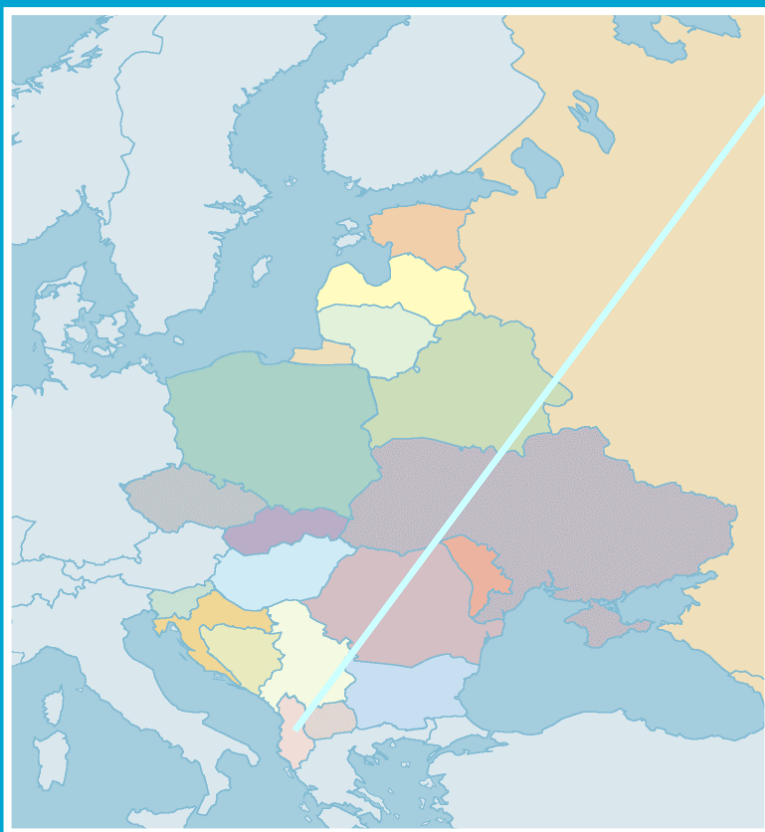


Annex: Additional information on specific countries



Issues in individual countries

Albania

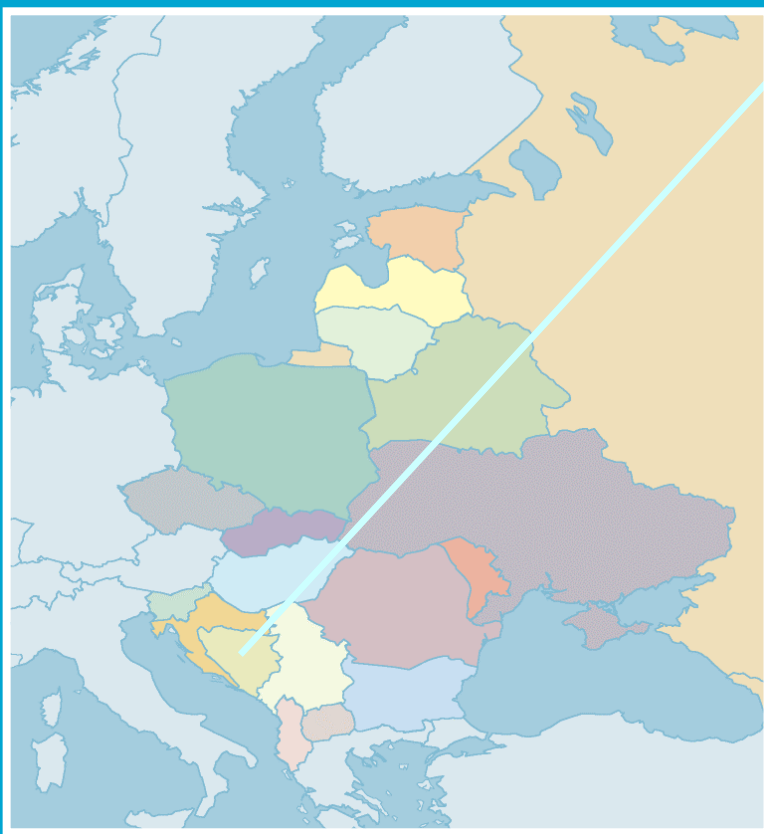


- No legislation for mortgages but treated as any other loan
- Primary lending expanding with growth in construction; volume of loans remains small relative to demand
- Eight banks now offer mortgages, but constrained by lack of funding and technical expertise



Issues in Individual Countries

Bosnia and Herzegovina

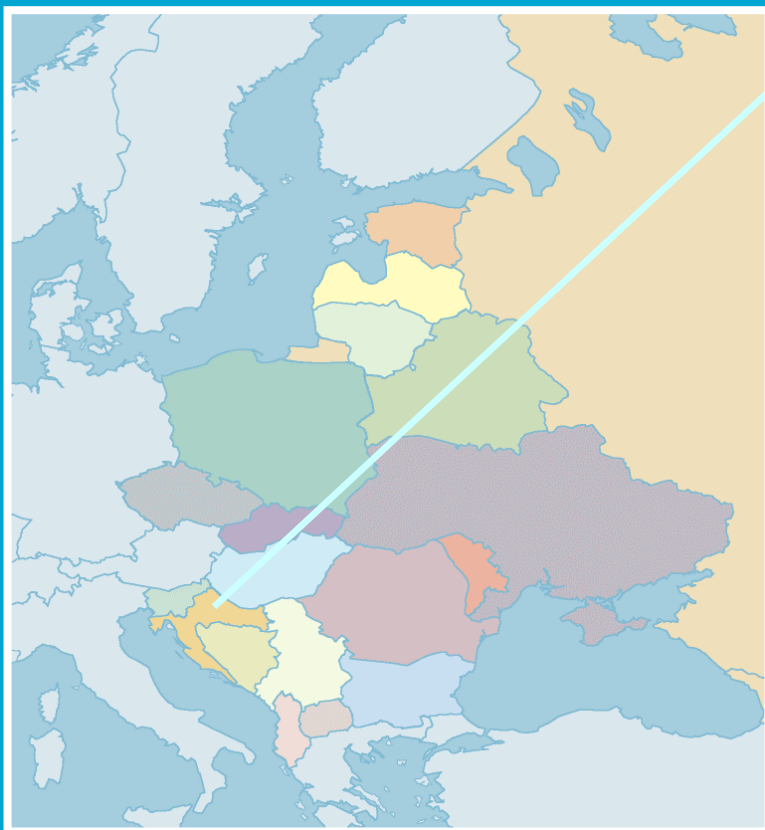


- Law on mortgages in force but difficulties exist with registration and execution. New draft law under preparation
- Primary lending dominated by five foreign banks providing maturities up to 15 years and rates as low as 10%. Recent start of Bausparkassen product
- No secondary market as yet



Issues in Individual Countries

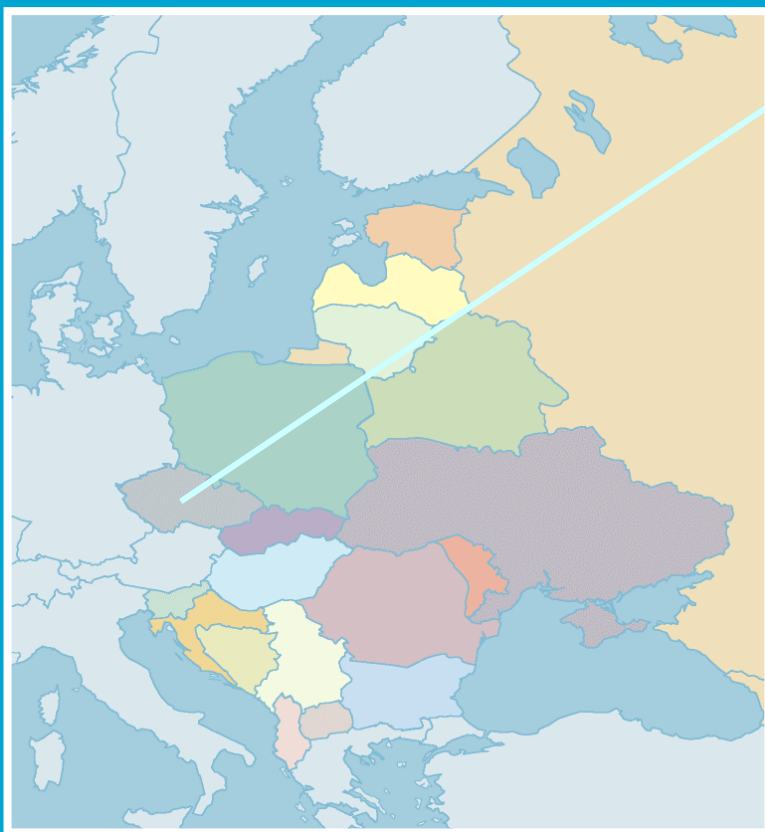
Croatia



- No specific mortgage laws but other laws are adequate for mortgage lending
- Universal banks are active
- Mortgage finance now represents 7.7% of GDP – highest in SEE – but Central Bank is constraining lending expansion
- Pressures for secondary market development though no laws as yet



Issues in Individual Countries



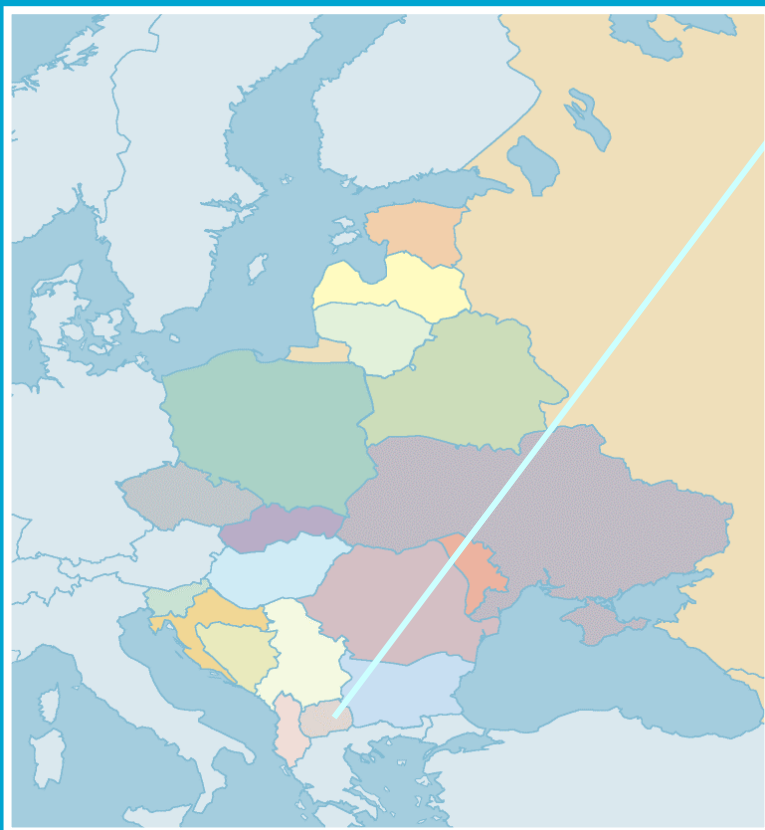
Czech Republic

- Mortgage law permits lending by authorised banks which can also issue mortgage bonds
- Lending growth supported by State interest subsidy
- Main lenders are the universal banks plus building societies on the Bausparkassen model
- Successful mortgage bonds issues on the domestic market



Issues in Individual Countries

FYR Macedonia

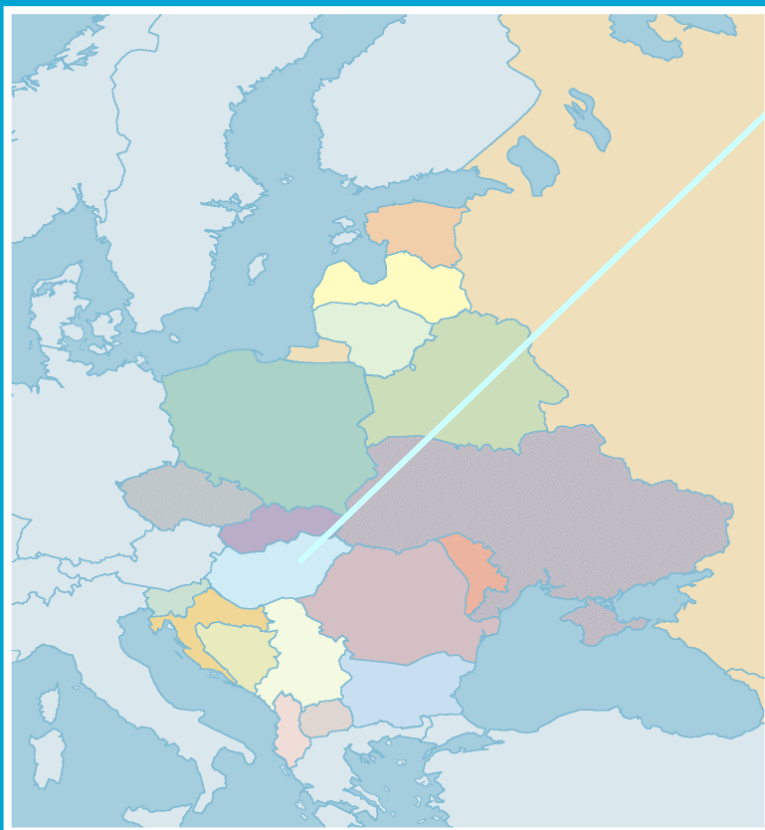


- Mortgage law passed in June 2000. Hindered by issues with the property registry and enforcement, but no current plans for legal reform
- Three major banks now rapidly growing the primary market but face lack of access to long term funding
- No secondary market as yet



Issues in Individual Countries

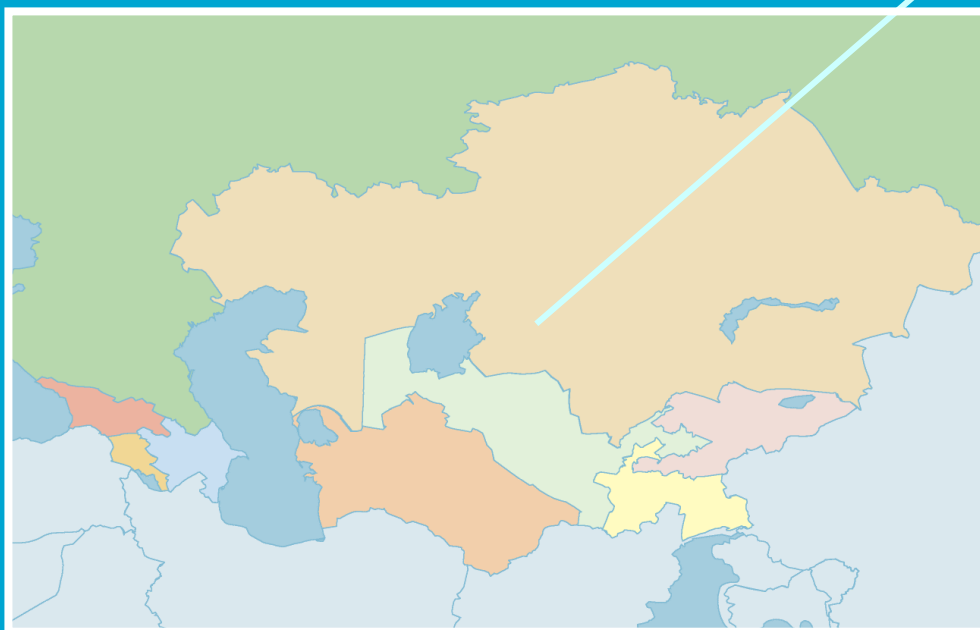
Hungary



- Law allows specialist mortgage banks, financed by bonds, to be established
- Very rapid growth in mortgage lending due to large State subsidy attached to mortgage bonds
- Mortgage banks have successfully issued domestic bonds and have launched international issues



Issues in individual countries

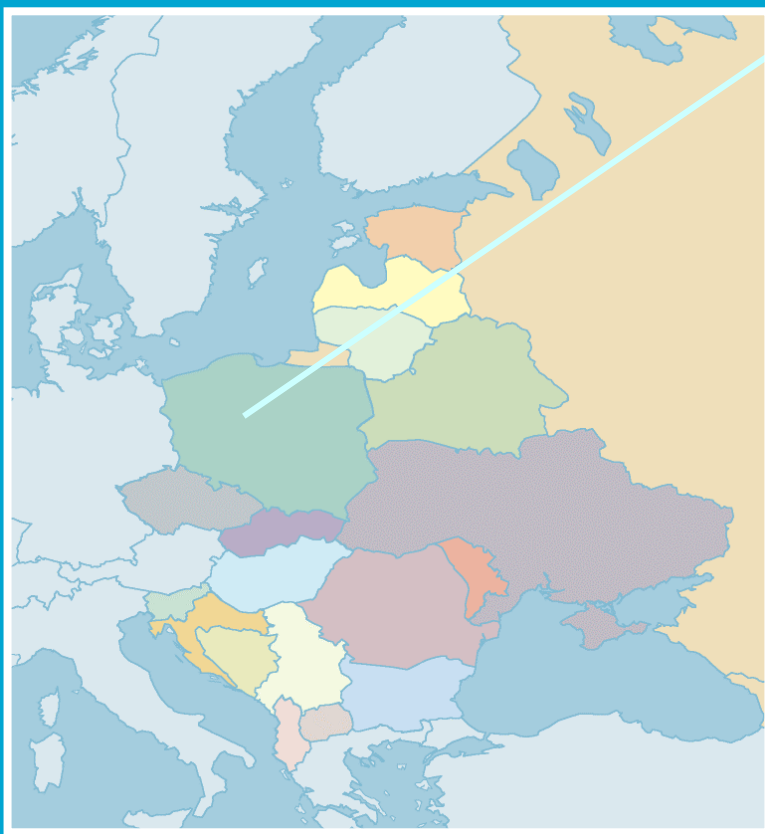


Kazakhstan

- Legal framework in place banking law plus NBK decree on mortgages
- Lending growth concentrated in Almaty and Astana; principal lenders are specialist subsidiaries of large banks
- Interest in secondary market development through bonds issued by the Kazakh Mortgage Company



Issues in individual countries



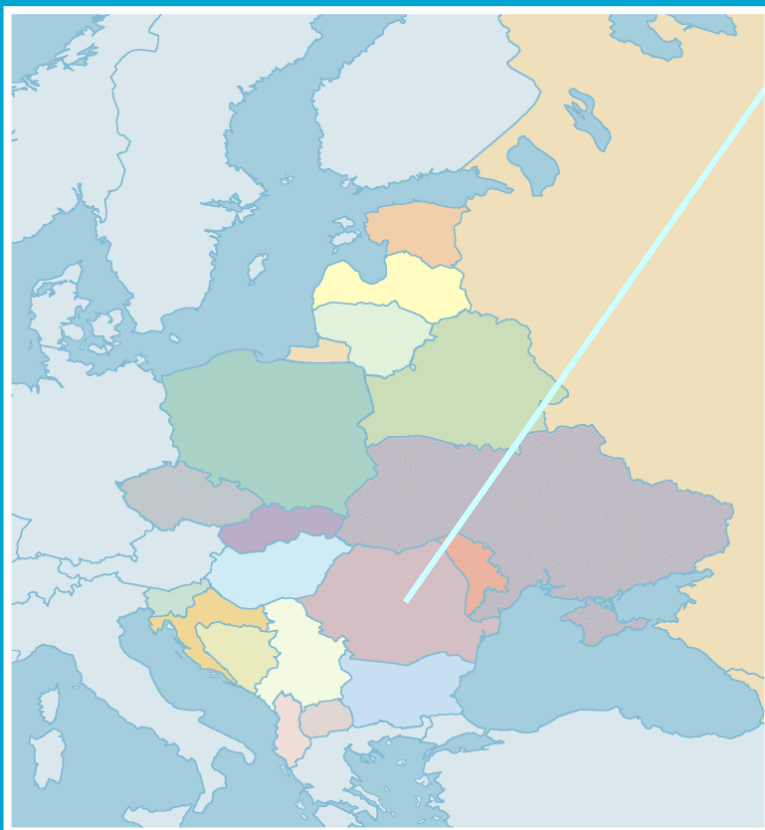
Poland

- 1997 Act allows specialised mortgage banks, financed by bonds, to be established
- Growing mortgage volumes, main lenders are the universal banks plus the specialist mortgage banks
- Mortgage banks have issued bonds but constrained by limits on portfolio transfers. Interest in securitisation



Issues in Individual Countries

Romania



- 1999 Mortgage law amended at end 2002. Further amendments planned but law generally adequate
- Mortgage market developing rapidly in 2003 and represents 4% of GDP
- Most lending through universal bank plus one specialist institution
- Banks are highly liquid but lack long-term funds; some are exploring issuing mortgage bonds
- Work in progress on the secondary market



Issues in Individual Countries

Russia

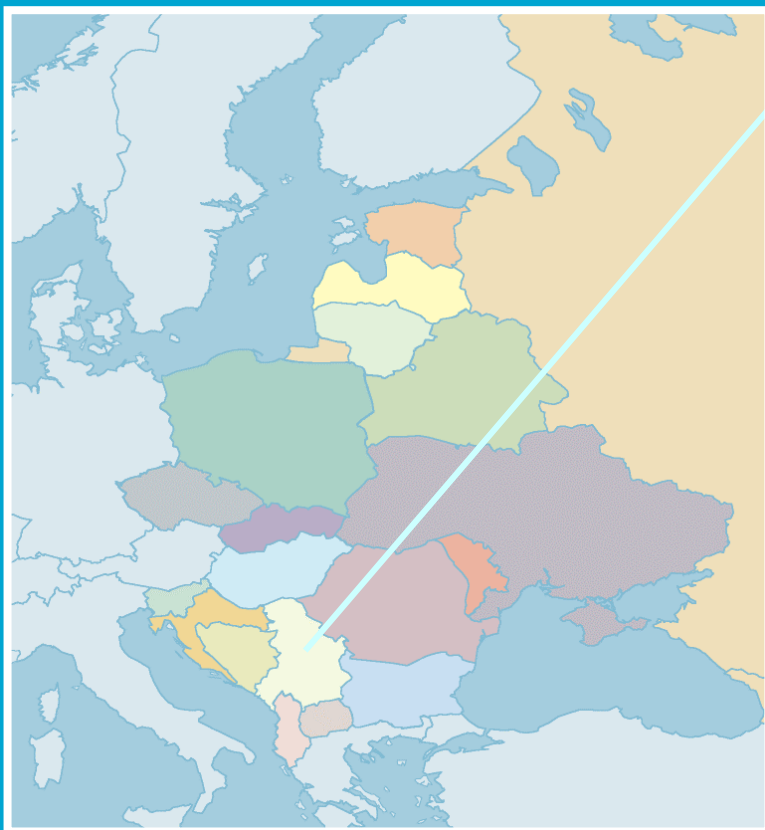


- Legal framework in place through 1998 law but inhibited by enforcement difficulties
- Mortgage lending in Moscow by one specialised bank (Delta) and foreign banks
- Increasing interest from larger domestic banks
- No secondary market activity to date although Delta is keen to develop it



Issues in Individual Countries

Serbia and Montenegro

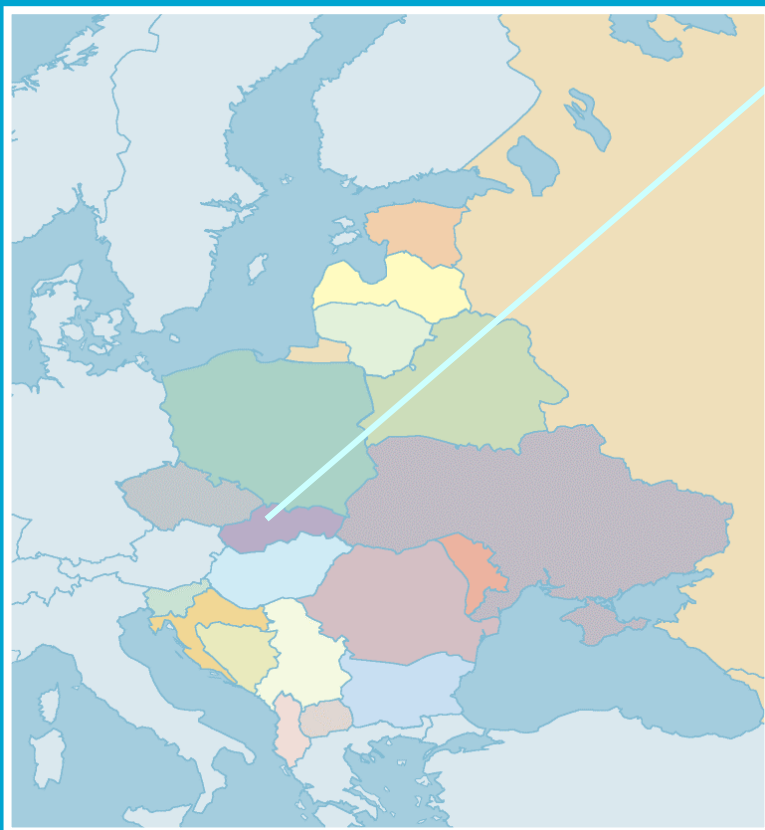


- Primary market under-developed, no secondary yet
- Legal problems exist: property ownership is a major issue, many titles are not recorded, enforcement is long and complicated
- Banks looking to start residential mortgage lending but limited access to funding



Issues in Individual Countries

Slovakia

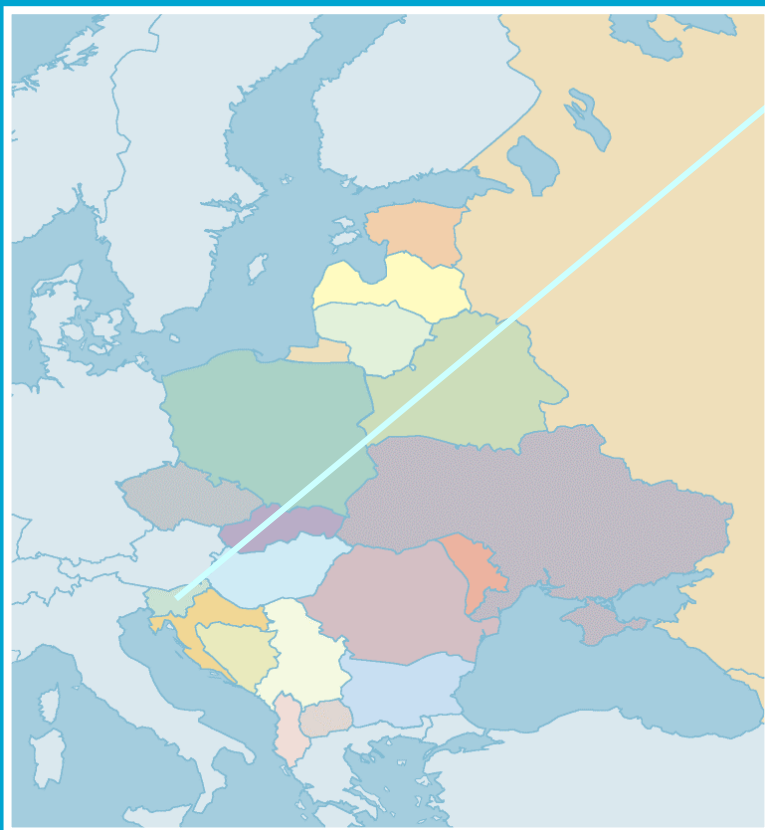


- Mortgage law permits lending by authorised banks and building societies
- Lending growth supported by State interest subsidy
- Main lenders are the universal banks plus building societies on the Bausparkassen model
- Framework in place for mortgage bonds but not yet active



Issues in Individual Countries

Slovenia

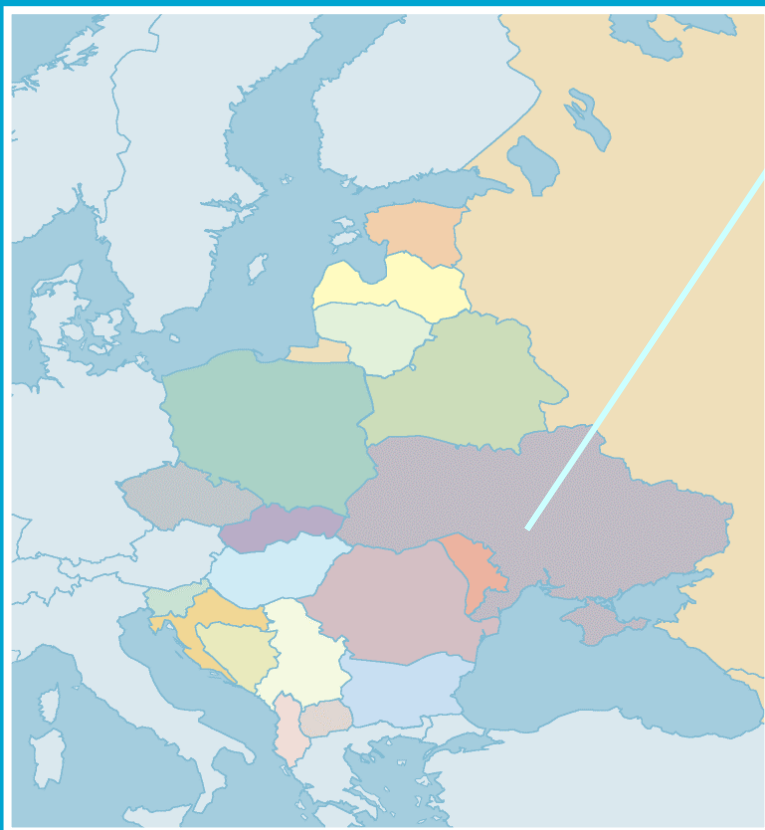


- Primary mortgage lending possible and there is a new law. Problems remain with incomplete land registry
- Housing loans available (c.3.3% of GDP). Mortgages are growing, as are their maturities
- No secondary market but mortgage bond law being developed



Issues in Individual Countries

Ukraine



- Lack of adequate mortgage legislation although this is under-development
- Several of the larger domestic banks are tentatively developing mortgage lending
- No secondary market laws or activity to date

