

Developing Mortgage Finance in Southeast Europe

Sally Merrill, Urban Institute

Paul Sacks, Multinational
Strategies

Jean Lange, USAID/EE



USAID Regional Mortgage Finance Projects in SEE

(1) SEEMFN: Southeast Europe Mortgage Finance Network

- Goal: develop primary markets and local secondary markets in SEE via a regional, standardized, international best practice approach

(2) SEE Mortgage Fund: a “conduit” or pooled funding vehicle

- Goal: access to funding for SEE lenders in international banking & capital market, esp. Euromarket
- 




Southeast Europe Mortgage Finance Network (SEEMFN)

- Initiated with SEE Regional Conference: January 2003, Sofia; participants from SEE, CEE, Germany, U.K., U.S., USAID, EBRD, and IFC
 - SEEMFN Working Group. Meets semi-annually: 2003-2006
 - Mortgage market studies: Croatia, Romania, and Bulgaria, Bosnia, and Serbia
 - Website: www.ceemortgagefinance.org
- 




SEEMFN Working Group

- Primarily private sector: lenders from SEE (private members are self-funded)
 - IFIs & donors: USAID, EBRD, IFC, & KfW
 - Also: German Mortgage Bankers, Croatian Banks Association, USAID-sponsored Enterprise Funds in Bulgaria and Romania, Institute for Market Economics, Urban Institute, and MNS
 - Government participation limited: Central Banks and Ministries of Housing & Finance
- 



SEEMFN Working Group, May 2003, Sofia: Priorities

- Host: Institute for Market Economics, Sofia
 - Legal Framework: legal infrastructure for primary & secondary mortgage markets
 - Standardized, best practice underwriting
 - Mortgage Guarantee (default) insurance
 - Regulatory Issues in mortgage finance
 - Support functions: credit bureaus, appraisal, data
 - Other areas as agreed by SEEMFN members
- 



SEEMFN: December 2003, Bucharest


- Hosts: Ministry of Transportation, Public Works & Housing, Romanian-American Enterprise Fund, and Domenia Credit
- Presentation: “Legal Framework for Primary & Secondary Mortgage Markets in SEE”:
Bulgaria, Romania, and Croatia*
- Primary Market: Mortgage laws, foreclosure, enforcement, judicial structure, & registration
- Secondary Market: Mortgage bond laws & other secondary market legal infrastructure

* Carol Rabenhorst, Urban Institute, & Stephen Butler, Jurisconsult






SEEMFN: May 2004, Split

- Host: Croatian Banks Association
 - Presentation: EBRD Mortgage Finance Manual: Best Practice Underwriting, EBRD & Bank of Ireland
 - Presentation: Successfully launching the Croatian Credit Bureau, Croatian Banks Association
 - Presentation: Efforts to Establish a Bulgarian Credit Bureau, Institute for Market Economics
- 




Future SEEMFN Topics

- Regulation of Mortgage Finance
 - Mortgage Default (Guarantee) Insurance
 - Implementation Issues in the EBRD Best Practice Manual
 - Secondary Market Funding Options: Covered Mortgage Bonds, MBS
 - Secondary Mortgage Market Conduit
- 



SEE Mortgage Fund

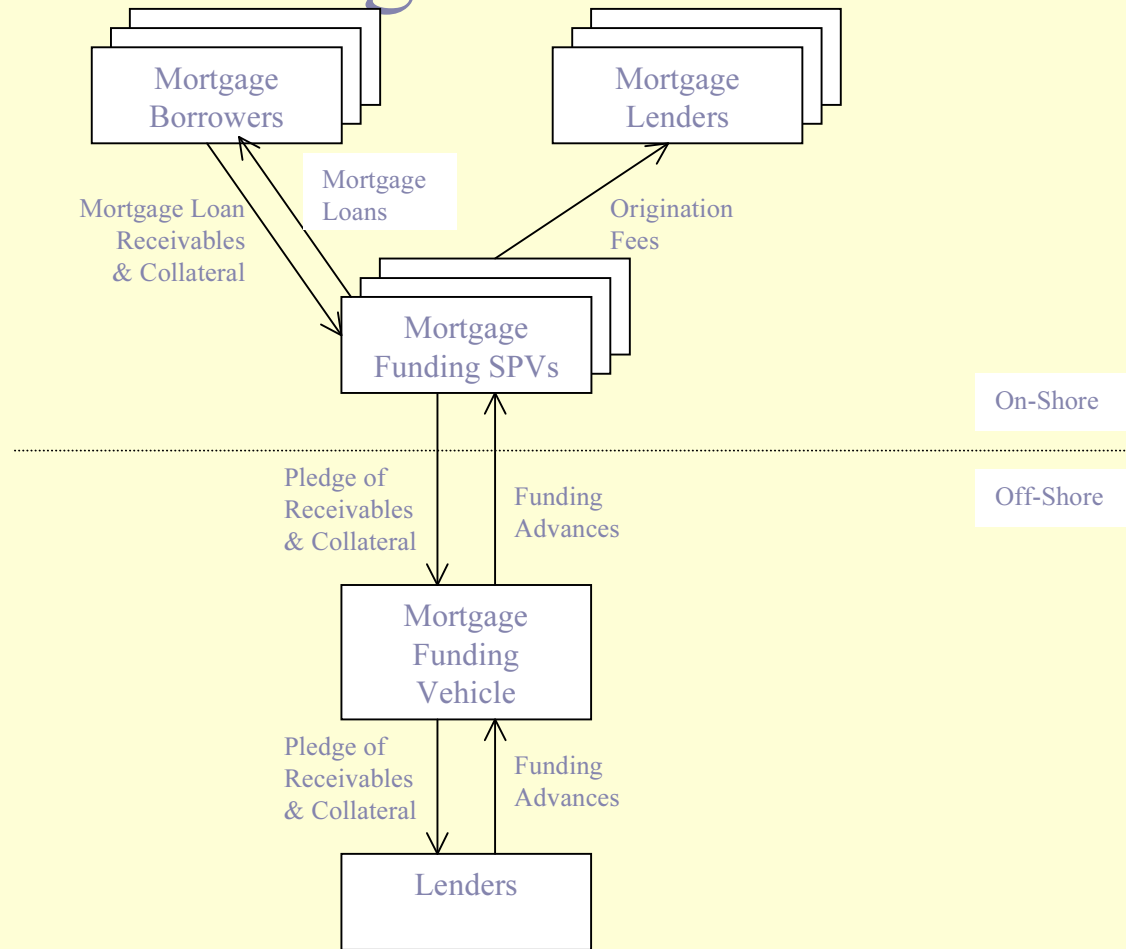
- Mortgage Fund is a “conduit”, or pooled funding vehicle
 - Funding for See lenders will be provided via a revolving structure loan facility
 - Conduit will acquire mortgage pools and mortgage bonds from SEE banks
 - Goal: provide secondary market funding from international banking and capital markets
 - USAID, IFC, KfW, EBRD, international banks
- 



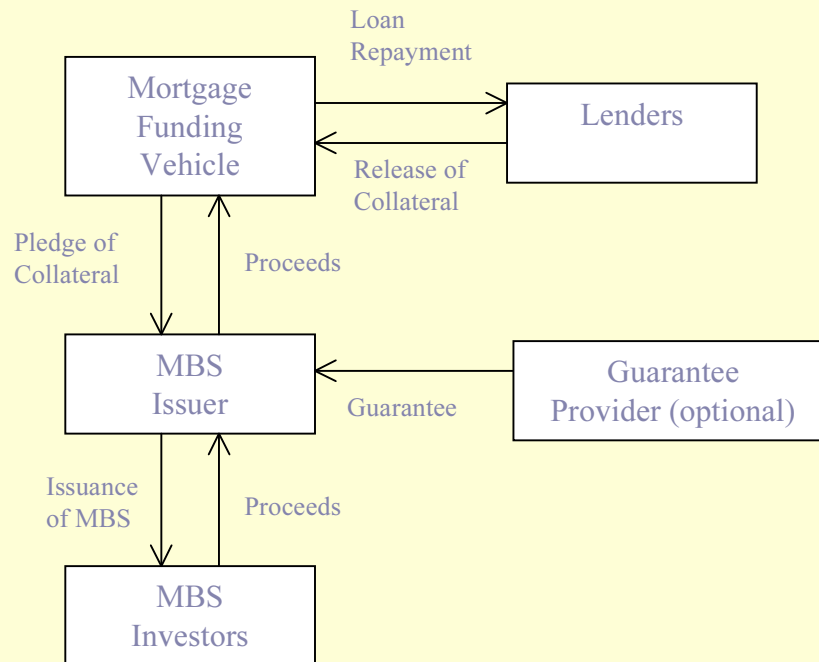
Rational for SEE Conduit

- Current SEE funding: deposits, parent bank financing, syndicated bank loans, MBB in Bulgaria
 - Conduit will enable SEE banks to diversify funding & access longer-term international capital market funds. Provides”
 - Diversification of funding sources
 - Access to international capital market
 - Economies of scale via sharing transaction costs be originators
- 

Proposed Structure – Funding of New Loan Originations




Proposed Structure – Refinancing via MBS Issuance






Key Features of Conduit

- Funding provided via a revolving structured loan facility, refinanced by issuing MBS
 - This funding used to fund new origination (meeting required standards)
 - Each mortgage lender has its own SPV
 - SPV will own the assets, lenders will originate service
 - Would begin with loans from 4 banks in Croatia & Bulgaria (due diligence nearly complete)
- 



Developing the Conduit

- USAID: grants for conceptualization since 2003
 - IFC, KfW, and EBRD: now may provide further grant funding and technical support
 - Several large international banks expressed interest in (1) providing the liquidity facility (structured loan facility) & (2) organizing securitization of bonds backed by SEE mortgages
 - Banks from Italy, France, Japan, Netherlands, U.S.
- 




Lessons Learned (1)

- Regional approach has been very effective in bringing countries together
- SEE regional “leaders”: share with each other & with those just beginning the reform process
 - Bulgaria: progress on mortgage bonds
 - Romania: progress on foreclosure law
 - Croatia: operating credit bureau, booming market






Lessons Learned (2)

- Focus on primary market first
 - Primary market must strive toward best practice before issuance of mortgage-backed debt can be cost-effective
 - Standardization enhanced the effectiveness of the regional focus
 - Then, focusing the secondary market development reinforces primary market development
- 



Lessons Learned (3)

- Private sector must be involved: mobilizing and energizing the private sector is highly effective
 - Excellent way to create pressure on Government for market reform
 - Competition sharpened, as banks move to best practice & cost-effective funding strategies
- 



Lessons Learned (4)

- International approach definitely justified
 - Primary market best practice looks to international standards
 - Legal infrastructure for secondary market should be flexible & able to accommodate numerous typologies of mortgage-backed debt
 - Donor cooperation is alive and well!
- 