

Southeast Europe Financial Sector Conference

„Developing Secondary Mortgage Markets in Southeast Europe“

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Prerequisites for Creating Mortgage Backed Debt Instruments - Mortgage Bonds -



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various forms of mortgages/ charges on land

- more or less flexible regarding possibility of securing credits (syndication)
- notary system
- registration necessary for creation of land charge

foreclosure law

- rank of mortgage/Charge on land
 - effectiveness
 - enforceable
- decisive for a mortgage as credit security



land register

- clear evidence of ownership
- public faith
- electronic land register
- cadastre/land surveying
- link between
land registry (legal information) cadastre (physical information)

insolvency law

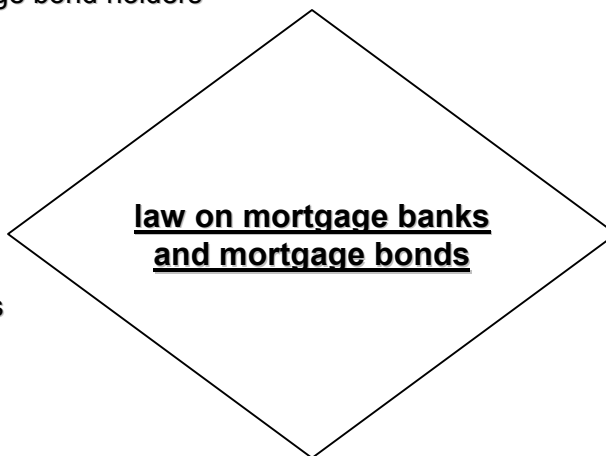
Funding Side

issuer

- specialised issuer → minimizing risk
- specialised supervision (in addition to normal bank supervision)
- specialised source of business
- in case of bankruptcy no political problems for privileging mortgage bond holders

valuation

- careful valuation of real estate
- mortgage lending value
- lending limit for funding through mortgage bonds



according to legal provisions
preferential right in case of bankruptcy absolutely necessary prerequisite for a mortgage bond (Art. 22 para 4 UCITS-Directive)

investment rules

- establishing national institutional investors (pension funds, insurance companies etc.)
- introducing the privileges for mortgage bonds, provided for in EU-law into national law
- possibly tax privileges (mortgage bonds should be treated like government bonds)

→ issuer, preferential right in case of bankruptcy, valuation → regulated by a special law on mortgage banks and mortgage bonds

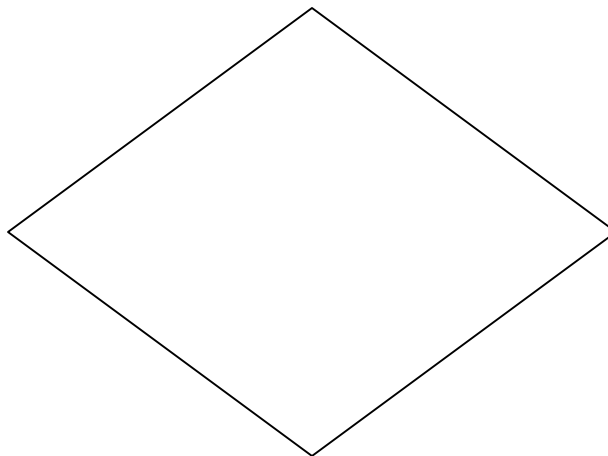
Other topics

rating agencies

- for mortgage bonds in a first step not absolutely necessary, but helpful
- in central Europe first mortgage banks (Latvia, Hungary) got an international rating in 2002 for going to the European capital market

transfer of ownership of mortgage assets / SPV's / trust

- no special rules necessary, but easy transfer helpful
- mortgage bank itself origins and funds the mortgage assets
- mortgage bank is registered in the Land Registry (according to European civil law)



standardisation

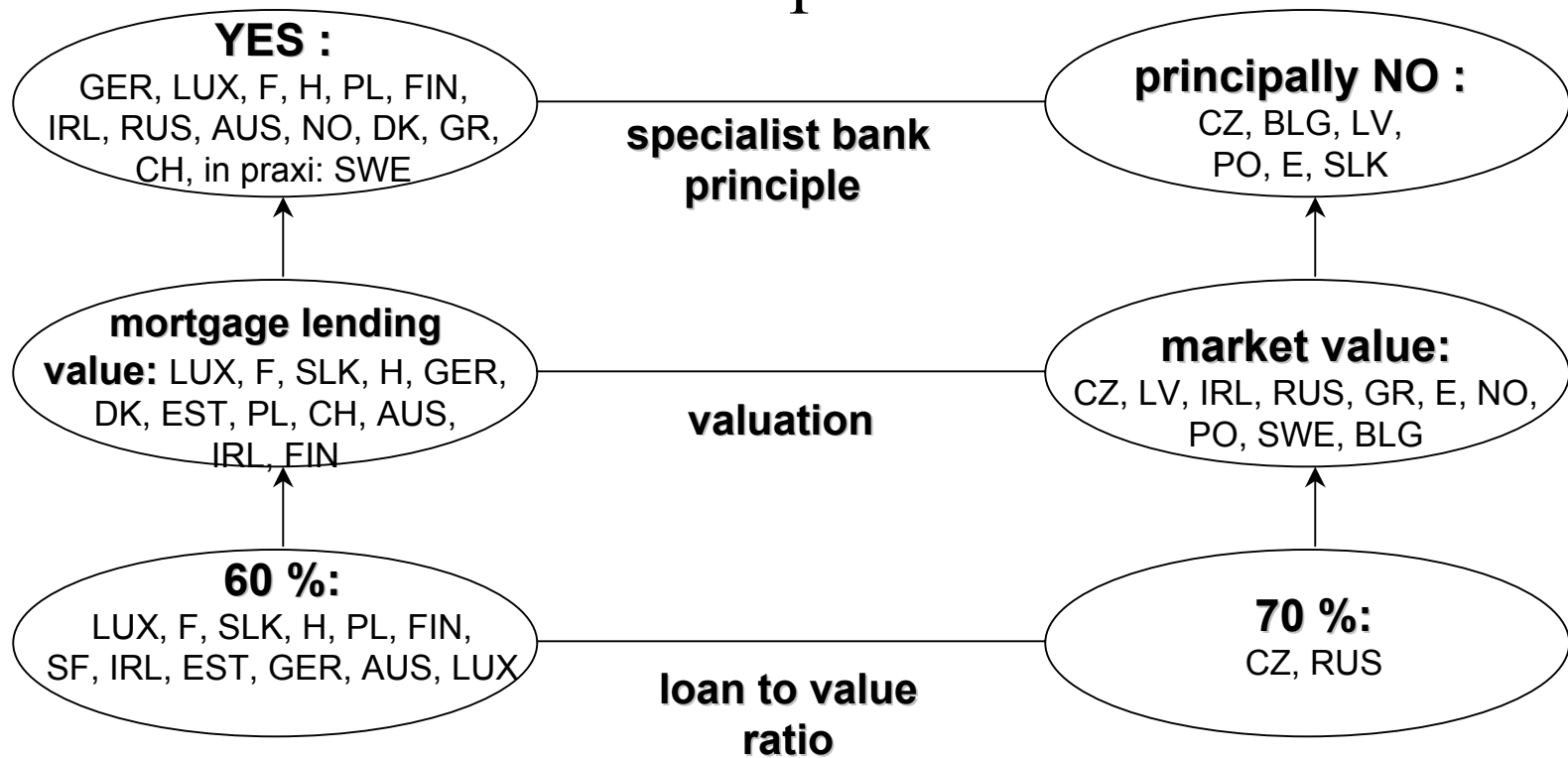
- helps to reduce transaction costs
- each mortgage bank decides on standardisation of its mortgage assets
- normally cover pools for mortgage bonds are heterogenous

title insurance

- not needed in civil law countries with clear and efficient land registries

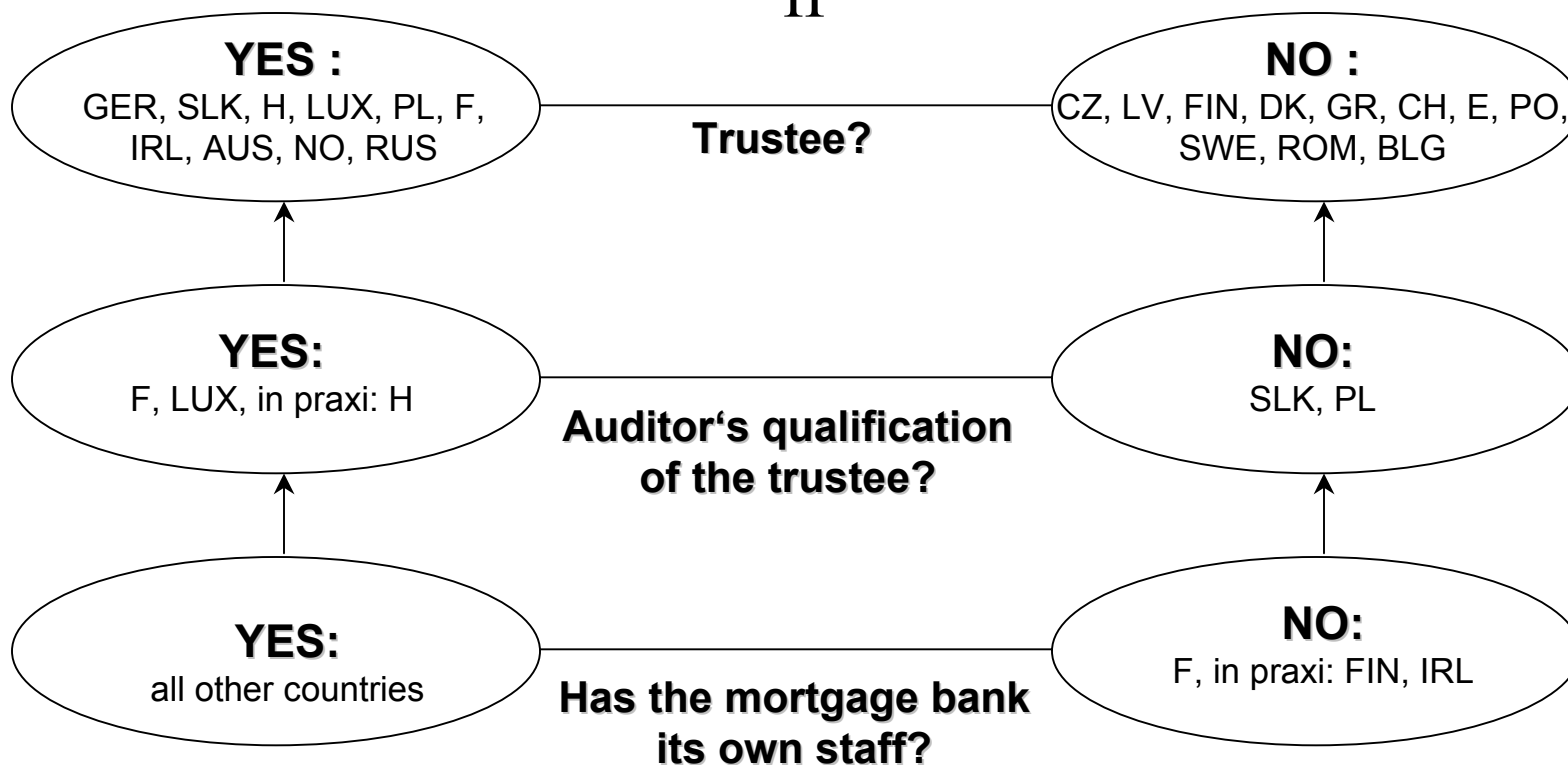
Basic differences between the new laws/draft laws for mortgage banks and Pfandbrief-like products in Europe

I



**Basic differences between the new laws
 for mortgage banks and Pfandbrief-like
 products in Europe**

II



Needs for a mortgage bond system

I. Lending side

Clear, efficient and enforceable mortgage law
→ mortgage / charge on land as credit security

II. Funding side

- **Clear, efficient and strong mortgage banking law (rules for issuer, supervision, valuation, protection rules for mortgage bond holders)**
- **investment rules**

**Further information and material
offers our website:**

in German:

www.hypverband.de

„Europa + G7“

in English:

www.pfandbrief.org

„Europe + G7“