

ALPHA BANK ROMANIA



Developing Secondary Mortgage Markets in Southeast Europe

KEY ISSUES IN SEE MORTGAGE MARKET DEVELOPMENT

The Case of Romania

Sergiu Oprescu

Sofia, 4-5 February 2003



- Romania Overview
- The Banking Sector and the Capital Markets
- Primary Mortgage Market
- Prerequisites for Secondary Mortgage Market Development

Romania Overview

ALPHA BANK ROMANIA

Romania Overview



- Strong signs of economic recovery and real convergence:
 - ! Third consecutive year of GDP growth (2002e) +4.5%
 - ! Increase of industrial production (11 months 2002) +6.9%
 - ! Rebound of exports (11 months 2002) +19.7%
 - ! Increase of deposits (10 months 2002) +22.5%
 - ! Increase of non-governmental credit (10 months 2002) +39.5%
 - ! Standard & Poor's upgraded the rating to B+ / positive outlook ;

ALPHA BANK ROMANIA

Romania Overview



	1999	2000	2001	Sep-02
Nominal GDP (ROL billion)	539,357	796,534	1,127,729	995,716
Nominal GDP (USD million)	35,592	36,866	39,714	30,145
PPP GDP (USD million)	96,523	100,497	108,129	82,075
Real GDP (y-o-y % change)	-3.2	1.8	5.3	4.5
CPI (y-o-y % change)	45.8	45.7	34.5	24.1
Treasury bill rate (3-month) (%)	99.9	59.4	39.5	28.1
Avg. exchange rate (ROL/USD)	15,333	21,693	29,061	33,031
Avg. exchange rate (ROL/EUR)	16,296	19,956	26,027	30,778
Current account/GDP (%)	-3.7	-3.7	-6.1	-3.17
Population (mm)	22.5	22.4	22.4	21.6
Population 15-64 (mm)	12.3	12.3	12.3	11.8
Household Income				
GDP per capita (USD)	1,585	1,643	1,772	1,396
PPP GDP per capita (USD)	4,298	4,479	4,830	3,800
Gross monthly wages (ROL thousand)	1,958	2,876	4,283	5,705
Gross monthly wages (USD)	128	133	147	173
No. of employees (000)	4,761	4,623	4,669	4,396
Public sector finances				
Nominal fiscal balance (% of GDP)	-3.5	-3.7	-3.5	-3.2
Total public sector debt (% of GDP)	34	32	30	29

Source: BNR, National Statistics data

ALPHA BANK ROMANIA

Romania - Regional Comparison



Poland	
Population	38.6 mn
GDP/capita PPP	8,800
GDP growth (99; 00; 01)	4.1; 5.0; 1.1
CPI increase (99; 00; 01)	7.3; 9.4; 5.5
FDI (FDI / capita)	\$36.0 bn (\$947)
Mkt Cap	\$28,380 mil.
Sovereign risk	BBB+

Croatia	
Population	4.39 mn
GDP/capita PPP	8,300
GDP growth (99; 00; 01)	4.1
CPI increase (99; 00; 01)	2.6
FDI (FDI/capita)	
Mkt Cap	\$5,381 mil
Sovereign risk	

Hungary	
Population	10.1 mn
GDP/capita PPP	\$12,000
GDP growth (99; 00; 01)	4.5; 5.6; 3.8
CPI increase (99; 00; 01)	10.0; 8.8; 8.8
FDI (FDI/capita)	\$20.2 bn (\$2,000)
Mkt Cap	\$12,989 mil
Sovereign risk	A-

Romania	
Population	21.6 mn
GDP/capita PPP	6,800
GDP growth (99; 00; 01)	-3.2; 1.8; 5.3
CPI increase (99; 00; 01)	46%; 40%; 31%
FDI (FDI/capita)	\$4.6 bn (\$204)
Mkt Cap	\$159 mil
Sovereign risk	B+

Bulgaria	
Population	7.6 mn
GDP/capita PPP	6,200
GDP growth (99; 00; 01)	2.5; 3.7; 4.5
CPI increase (99; 00; 01)	2.6; 7.0; 5.2
FDI (FDI/capita)	\$2.0 bn (\$243)
Mkt Cap	\$816.5 mil
Sovereign risk	B+

Slovenia	
Population	1.9 mn
GDP/capita PPP	16,000
GDP growth (01)	3
CPI increase (01)	8.4
FDI (FDI/capita)	
Mkt Cap	\$9,441 mil
Sovereign risk	A

LEGEND

Population: in millions (as at July 2002)
 GDP growth: in real terms %
 Stock Market Capitalisation ("Mkt Cap"): Dec 2002

GDP/capita PPP: in US\$ end 2001;
 Average CPI increase: in %
 Gross foreign direct investment ("FDI"): in US\$ bn (FDI/capita: simple equation of FDI/population) January 2000

Sovereign risk: Standard & Poors

SOURCE

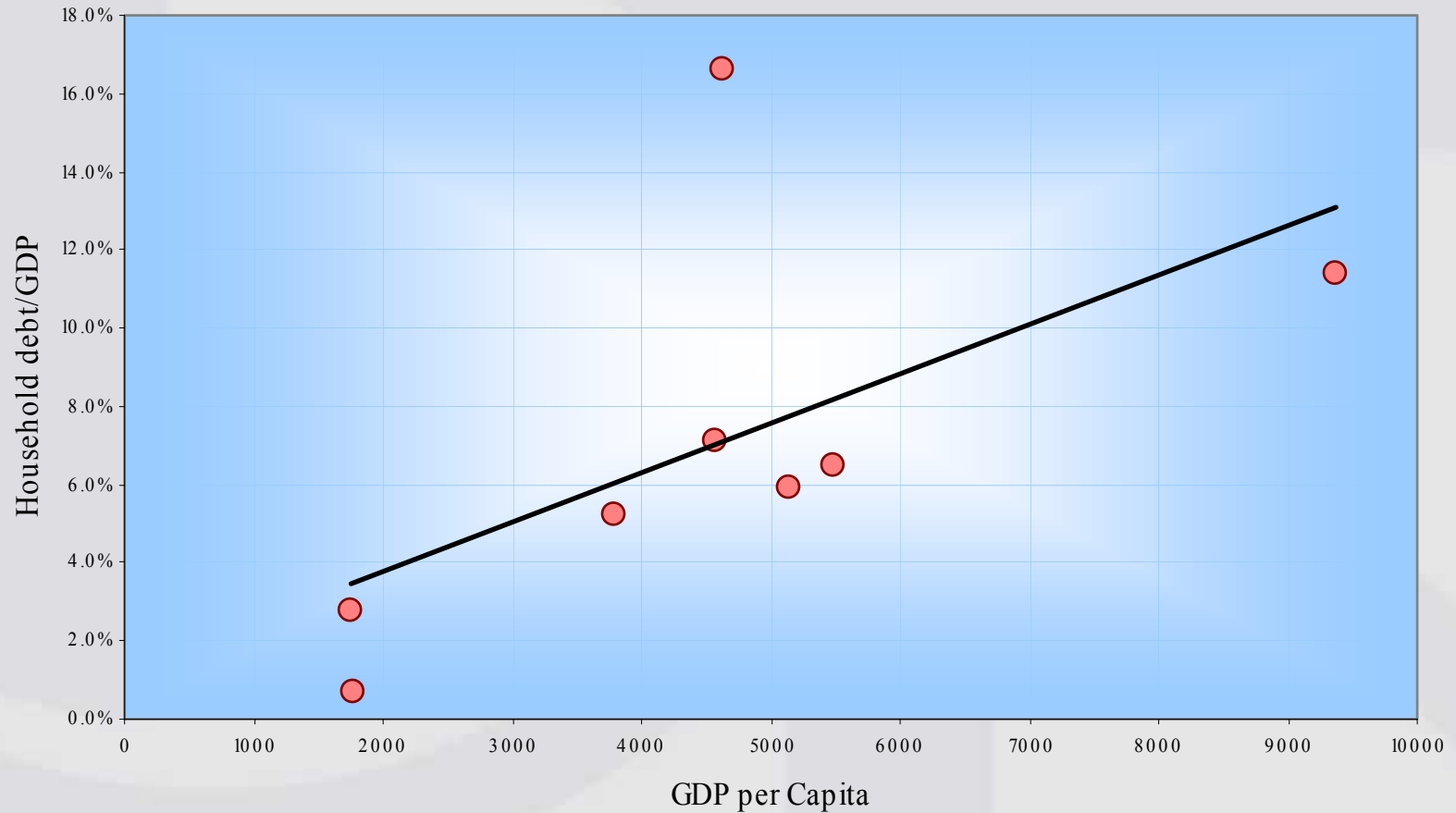
Standard Poor's, WIW, EBRD, Alpha Finance, National Statistics (Various),

ALPHA BANK ROMANIA

Romania - Regional Comparison



GDP per Capita and Household debt to GDP



The Banking Sector and the Capital Markets

ALPHA BANK ROMANIA

The Banking Sector



	1999	2000	2001	Sep-02
Size of financial system				
Banking assets/GDP (%)	33.8	29.2	31.2	42.9
Deposits/GDP (%)	24.4	22.2	23.2	30.8
Private credit/GDP (%)	10.7	9.4	10.5	15.8
Market Structure				
No of banks	41	41	41	39
No of employees	46,758	41,642	42,507	43,602
No of branches	2,923	2,747	2,772	2,799
Foreign ownership (%)	47.5	50.9	55.3	54.4
State ownership (%)	46.8	46.1	41.8	42.6
Concentration				
Market share top 3 banks in assets (%)	53.5	55.8	55.5	54.8
Market share top 5 banks in assets (%)	62.4	65.5	66.1	65.6
Banking penetration				
Banks per million of pop.	1.8	1.8	1.8	1.8
Banks per million of bank. pop.	3.3	3.3	3.3	3.3
Branch per pop. (per thousand)	7.7	8.2	8.1	7.7
Deposit per population	360	396	449	488
Household debt/GDP (%)	0.5	0.5	0.7	1

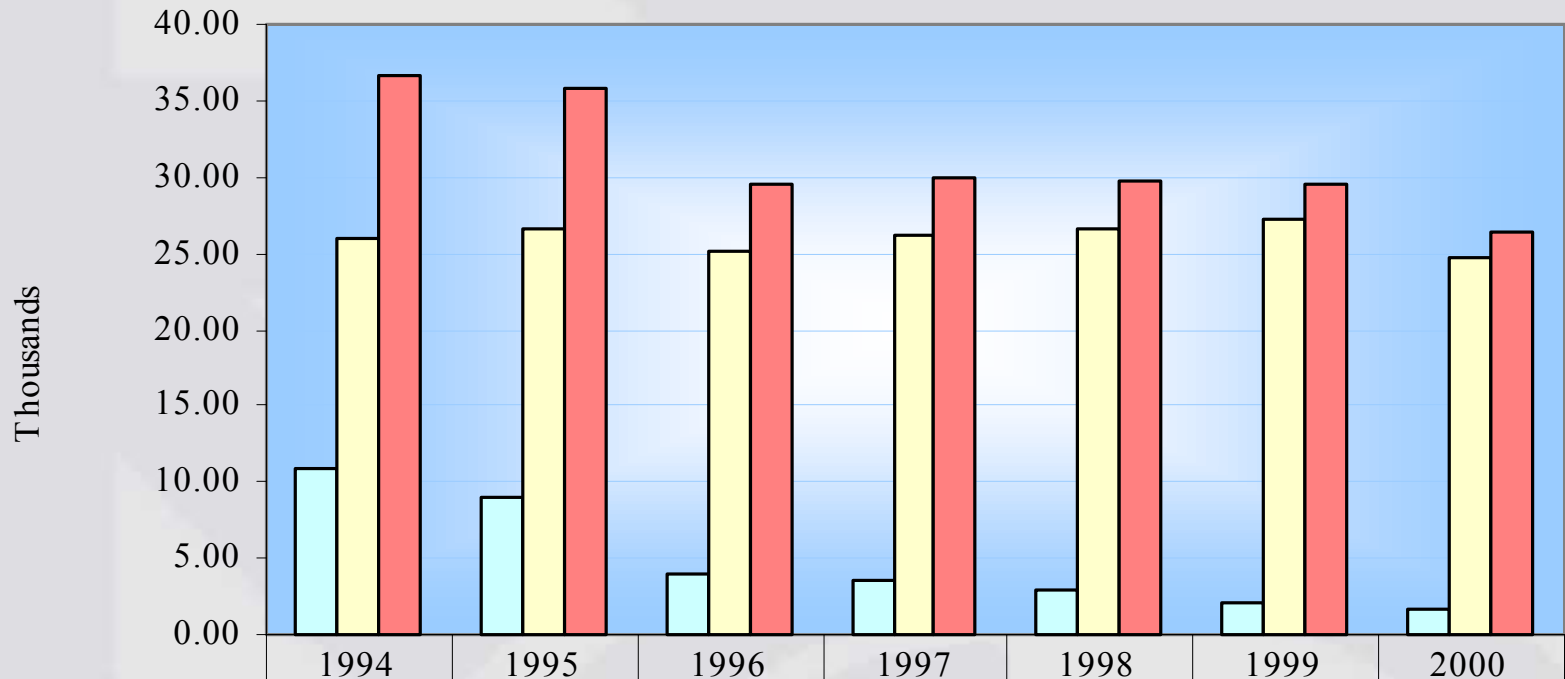
Source: BNR, National Statistics data, ABR estimates

ALPHA BANK ROMANIA

The Housing Market



Finished dwellings by financing sources



	1994	1995	1996	1997	1998	1999	2000
State related funding	10.80	9.00	4.00	3.50	2.90	2.00	1.6
Private related funding	25.90	26.70	25.20	26.10	26.60	27.30	24.7
Total	36.70	35.80	29.50	29.90	29.70	29.50	26.4

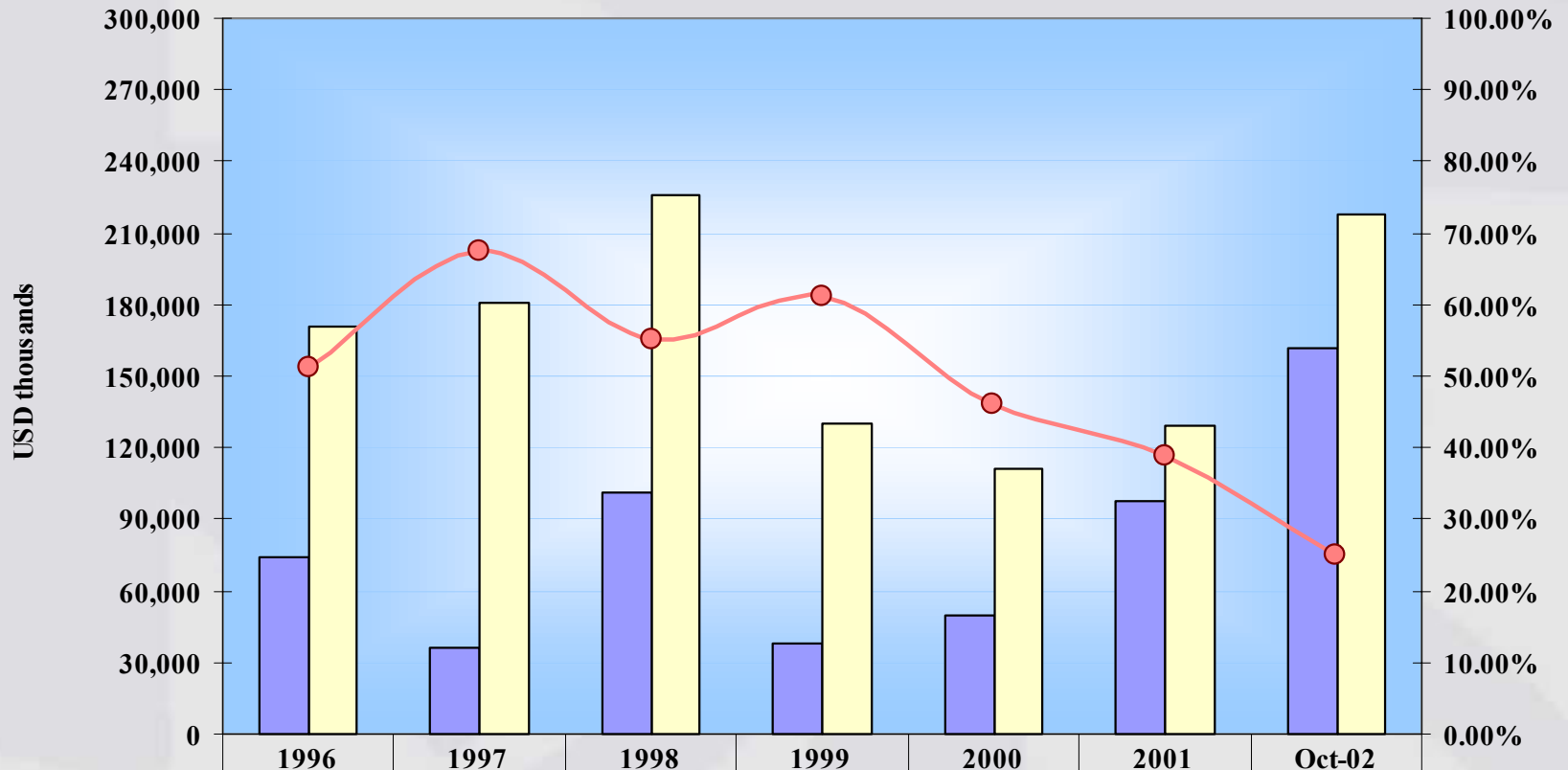
Source: National Statistics

ALPHA BANK ROMANIA

The Household Credit



Non-government domestic lending vs. interest rates



Short term	73,872	35,996	101,018	37,876	49,766	98,021	161,724
Long term	171,178	180,937	225,742	129,826	111,515	128,980	217,389
Avg. interest rate	51.30%	67.50%	55.10%	61.20%	46.23%	38.83%	25.12%

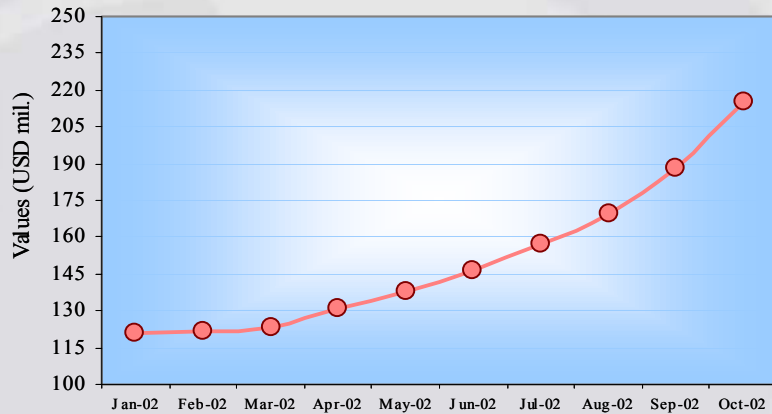
Source: BNR

ALPHA BANK ROMANIA

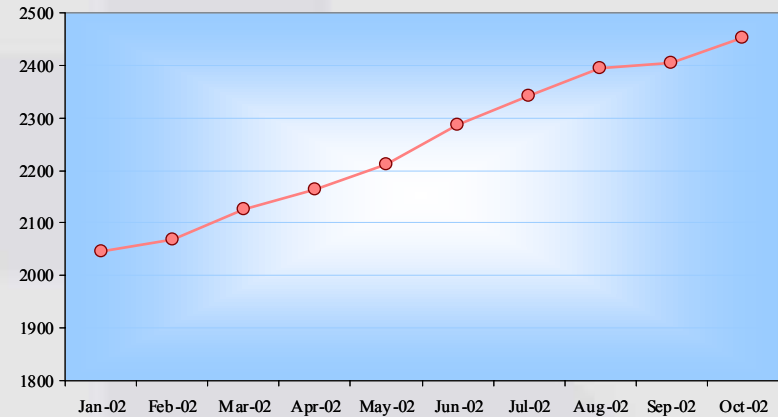
The Banking Sector



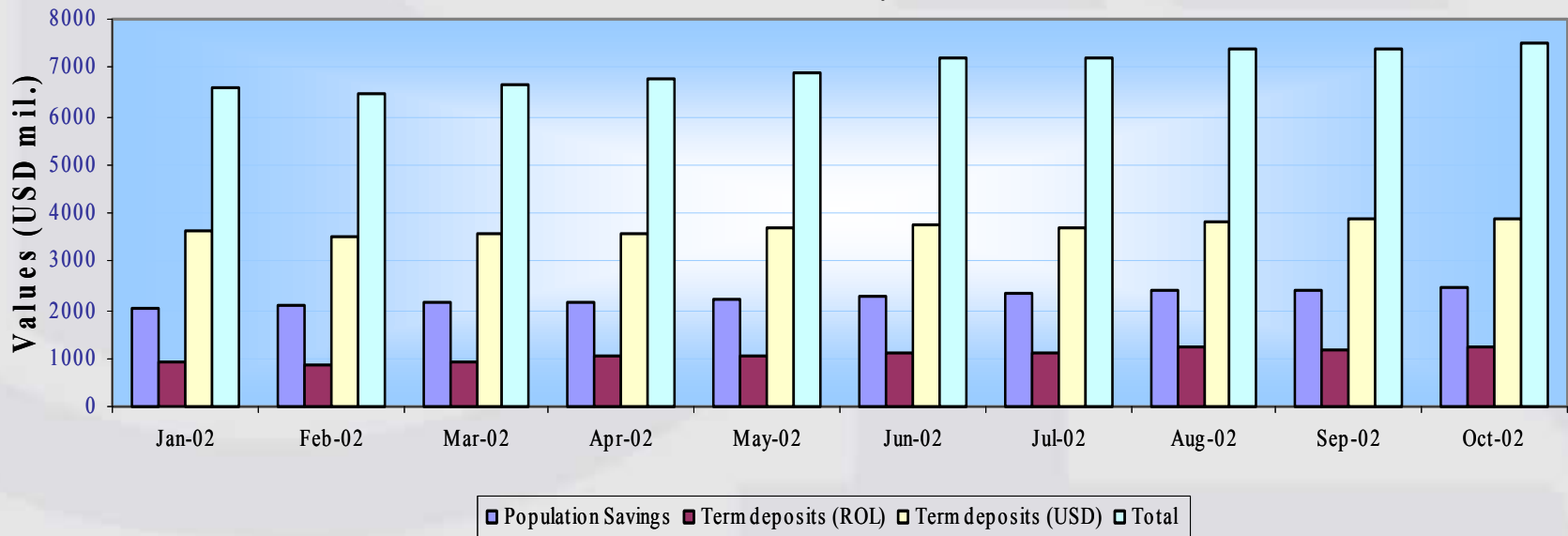
Loans to individuals



Individual's Savings

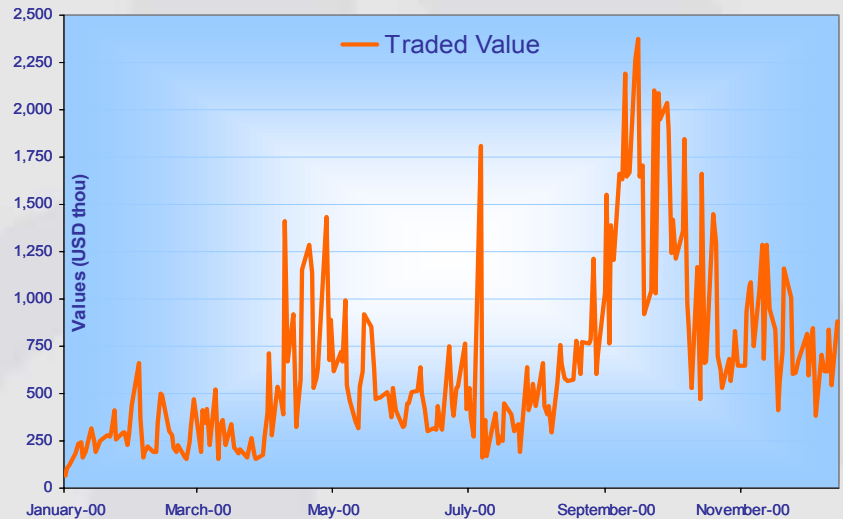
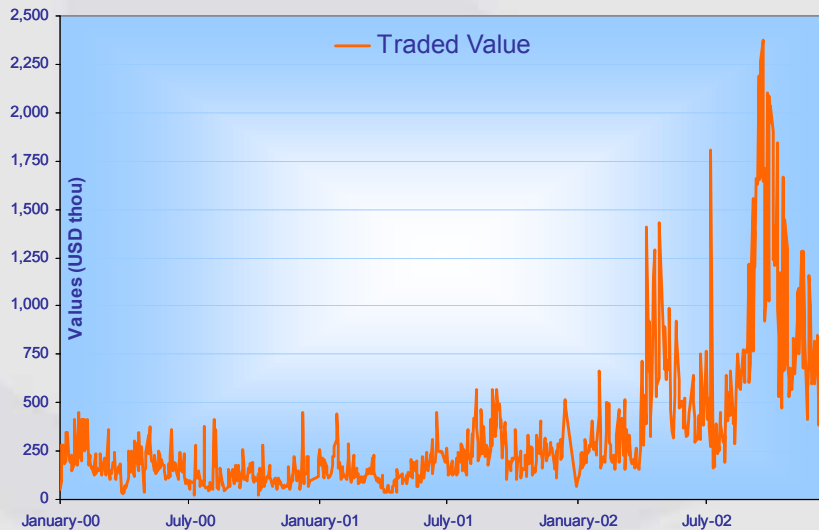
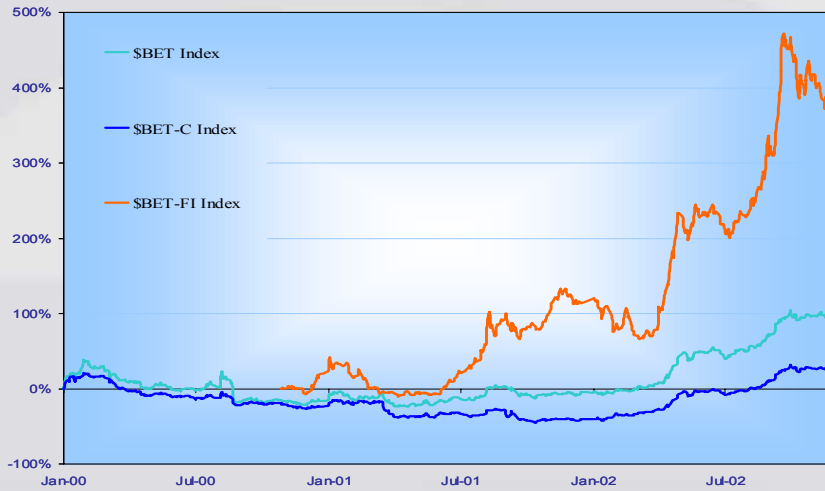


Quasi money



ALPHA BANK ROMANIA

Capital Markets



Primary Mortgage Market

ALPHA BANK ROMANIA

Legal Framework



- **Law no. 152/1998** regulates the state involvement in the real estate construction and financing through the National Housing Agency, the public institution authorized to grant mortgage loans on the basis of partnership with banks
 - the only regulation that grants tax incentives for mortgage loans beneficiaries
- **Law no. 190/1999** (the “Mortgage Loans Law”) creates the legal framework of mortgage loan for banks and other financial institutions
 - NSC’s **Regulation no. 2/2000**
 - NBR’s and NSC’s **Regulation no. 3/2000**

Both establish the basic rules of primary and secondary market and the types and characteristics of mortgage lenders

- **Law no. 541/2002** introduces the concept of savings/financing of real estate development through “building societies”
- **Government Ordinance no. 200/2002** extends the market of mortgage lenders to mortgage societies, other than banks
- **Government Ordinance no. 201/2002** brings a relaxation of the mortgage loans legal terms and conditions for the benefit of lenders and borrowers as well

ALPHA BANK ROMANIA

Legal Framework



! De lege ferenda:

- fiscal/tax incentives for mortgage loan beneficiaries
- standardization of mortgage market
- credit bureau

ALPHA BANK ROMANIA

Fiscal Policy on Mortgage and Real Estate



- Income tax
 - ✓ No deduction for (mortgage) interest
 - ✓ Starting 2003 - income tax deduction for materials used (20%)
 - ✓ Self-employed deduction for insurance premiums – for assets used to take loans for business purposes
- Local taxes
 - ✓ Starting 2003 additional tax on building for owners with more than one house for living purposes (not rented)
Additional tax:
 - 15% for the first additional dwelling
 - 50% for the second additional dwelling
 - 75% for the third additional dwelling
 - 100% for the fourth and following additional dwelling
- VAT
 - ✓ Exempted until end 2002
 - ✓ VATable starting 2003

ALPHA BANK ROMANIA

Primary Mortgage Market



- Mortgage loans may be granted by banks, by the National Housing Agency, by the Savings House and by other financial institutions created by law, such as the mortgage undertakings
- The business object of the mortgage societies:
 - granting mortgage loans
 - management of mortgage portfolios
 - enforcement or transfer of mortgaged or privileged debts
 - transactions in their own account with negotiable monetary instruments
- Operation of mortgage societies
 - collecting sums paid by the debtors of the mortgage societies under the mortgage loan contracts entered into by the latter
 - follow-up regarding the reimbursement of such debts
 - foreclosure of mortgages and related privileges

ALPHA BANK ROMANIA

Institutional Framework



- Regulation and Supervision: NBR, NSC and ISC
- Mortgage Lenders (primary market) - existing: Commercial Banks, The National Housing Agency, The Savings House, Mortgage Societies
- Securitization → mortgage backed securities and mortgage bonds (secondary market) - just as legal framework: mortgage investment companies (including Commercial Banks), mortgage funds with the support of BSE

ALPHA BANK ROMANIA

Primary Mortgage Market Today



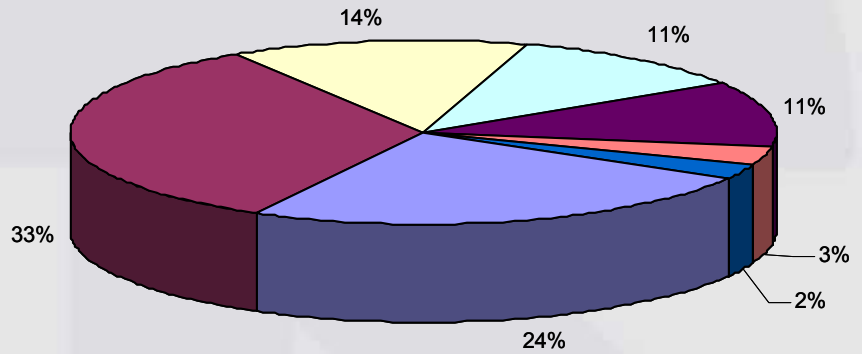
- No mortgage-backed bonds;
- First mortgage product was launched by Impact in 1996;
- In 2000 the commercial banks started to provide mortgage/housing loans;
- 2000, National Housing Agency established;
- Local players positioning for the issuance of mortgage bonds.
- 2002, 10 commercial banks providing mortgage/housing loans;
- The total mortgage/housing loans portfolio is estimated at 160 mil. USD at the end of 2002;
- Basic conditions for the inception of securitization of loans' portfolio and launching secondary market instruments (mortgage backed securities and mortgage bonds);

ALPHA BANK ROMANIA

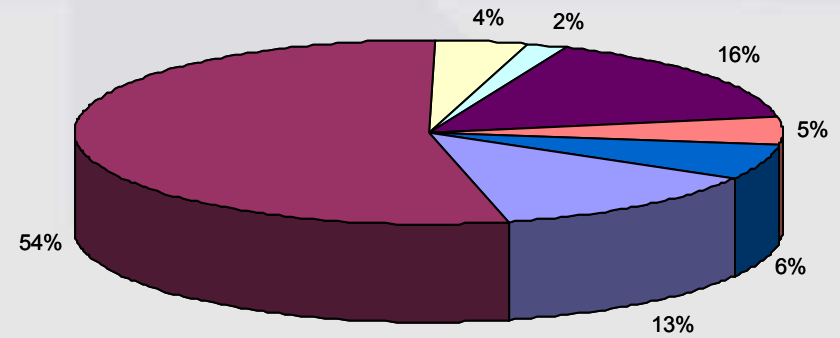
AH 810 Loan



Individual Costs in Europe



ABR Costs at USD 10,000 Loan



- Notary fees
- Taxes
- Other loan costs
- Property valuation
- Negotiating costs
- Mortgage registration
- Collateral registration

- Notary fees
- Taxes
- Other loan costs
- Property valuation
- Negotiating costs
- Mortgage registration
- Property registration

Prerequisites for Secondary Mortgage Market Development

ALPHA BANK ROMANIA

Prerequisites for Secondary Mortgage Market



- Stable Macroeconomic Environment;
- Developed Legal Environment;
- Capital Markets at Point of Critical Mass;
- Competitive Market Structure;
- Standardized Mortgage Instruments across the Market;
- Proper and Sound Origination Techniques;
- Proper Servicing Techniques;
- Fiscal Incentives for Population