SOUTHEAST EUROPE FINANCIAL SECTOR CONFERENCE

Developing Secondary Mortgage Markets in Southeast Europe

Financing Strategy for Mortgage Company

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Financing Strategy for Mortgage Company

- RAEF/SAS Mortgage Program
- Funding Strategy- Key determinants
- Funding Alternatives- Source of funds and availability perspectives
- Initial Funding Strategy- Long Term Loans
- Initial Financing Structure
- Long-run Funding Strategy
- Key Factors for Success

RAEF/SAS - Mortgage Program

- **Objectives**
  - Develop the primary and secondary mortgage market in Romania
- **Structure: Mortgage Company**
  - Non-banking Financial Institution
- **Initial financing structure**
  - Equity and long term loans from institutional and private Investors
  - Operations developed with USAID funding under SAS technical assistance

Funding Strategy
Key Determinants

- Source of funds from costs and long run availability perspectives
- Private funds accessibility in the long run
- Assets/Liability mismatch and liquidity risk
- Market characteristics regarding the accepted type of mortgage product (fixed, variable, etc)
- Minimizing risks related to emergent market uncertainties (e.g. lack of hedging instruments, no secondary mortgage market)

Funding Alternatives
Source of funds and availability perspectives

- **Deposits**
  - Low cost but short term; high duration mismatch induced
  - Relatively high availability
- **Long Term Loans**
  - Quite expensive but mitigate the risk of duration mismatch
  - Limited availability
  - Private funds difficult to access
- **Capital Markets**
  - Quite expensive on the short-run
  - Relatively high availability and long-run accessibility
  - Lack of legal and institutional framework

Initial funding strategy
Long Term Loans

- IFIs
  - Given their developmental missions, easier to embark in a start-up mortgage institution
  - Long term resources available

- Private Funds
  - A must, since IFIs may not constitute a long-run funding source
  - First step in the strategy to create a mortgage financing system based on attracting resources from capital markets
  - Credit enhancement needed

Initial Financing Structure (expected)

Equity (RAEF and IFIs)	US$ 7 million
IFIs 10 year Debt	US$ 20 million
Private sources 10 year Debt	US$ 7 million

based on DCA facility of US$ 3.5 million RAEF was able to be in advanced stages for attracting a 10 year loan from Raiffeisen Bank.

TOTAL: US$ 34 million

Long-run Funding Strategy

- Private funds available for being invested in long-term mortgage debt instruments - capital market sources
  - track-record and issuer credibility
  - legal, regulatory and infrastructure
  - supervision
  - appropriate structure (credit enhancements, reliable servicers and custodians, etc.)
  - liquidity (size of the issue, number of investors, regular issues, market making commitment, etc.)
- Decision on off balance-sheet vs. on-balance sheet funding
  - investors appetite
  - banking system approach

Long-run Funding Strategy
DCA - First step in developing long-run financing strategy

- On the basis of risk sharing arrangement, USAID was able to assist RAEF in attracting <u>private capital</u>.
- Proposal was approved by USAID's Credit Review Board

Key Factors for Success

- Legal environment- streamlined registration and foreclosure procedures
- Macroeconomic stability
- Real estate market liquidity and evaluation procedures
- Mortgage products demand and clear business plan/ objectives to meet the demand
- Sponsor - credibility, commitment and clear strategic view
- Development Credit Authority (DCA) facility set-up by USAID
- IFIs willingness to help the mortgage market development
- Commercial Banks willingness to develop a housing finance system