

DEVELOPING SECONDARY MORTGAGE MARKET IN SLOVENIA



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Development of the Secondary Mortgage Market

- **Banks need new long term funding instruments**
- Banks need to **transfer risks** (liquidity risk, interest risk, credit risk) to capital market
- Institutional investors also need such instruments



Prerequisites for Secondary Market Development

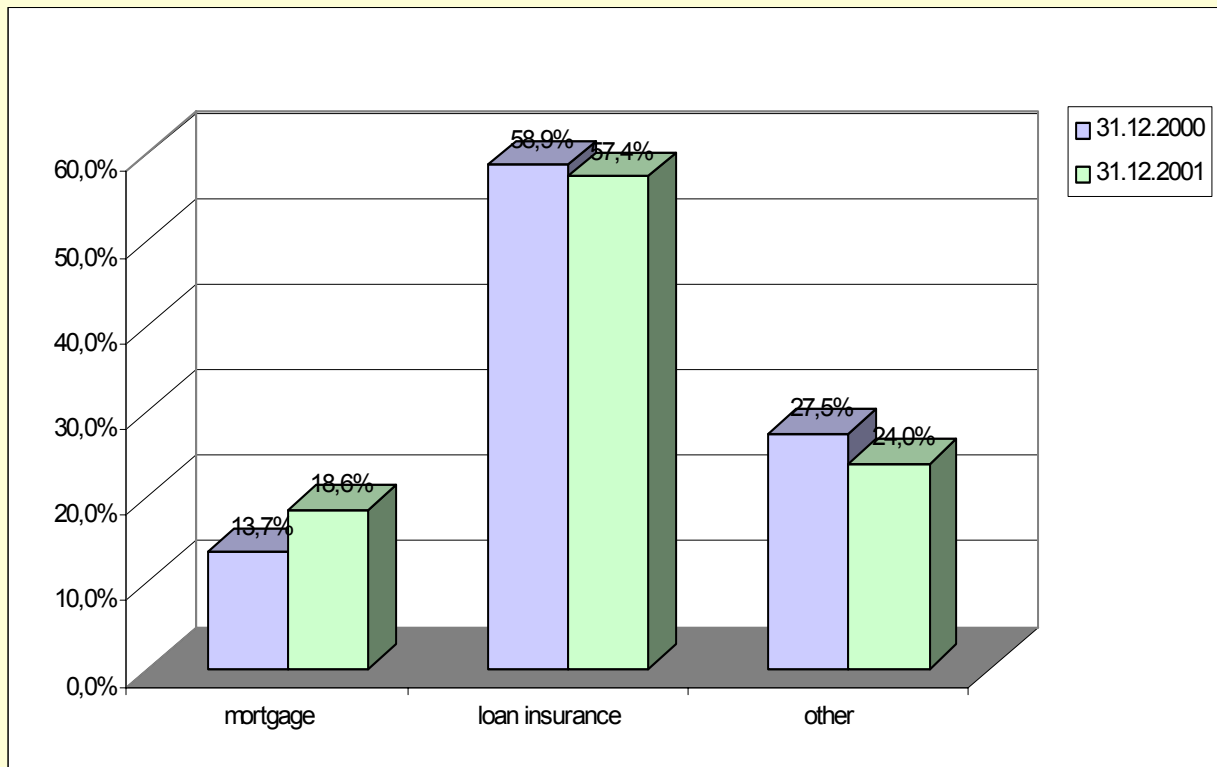
- **Strong primary market**
- **Strong legal infrastructure supporting**
 - Registration
 - Foreclosure
 - Eventual pledging and sale of mortgage loans
- **Developed bond market and existence of institutional investors**



Situation in Slovenia – lending side

- Weak role of mortgage finance in housing finance and other non-corporate lending
- Mortgage as collateral is more widely used in corporate finance

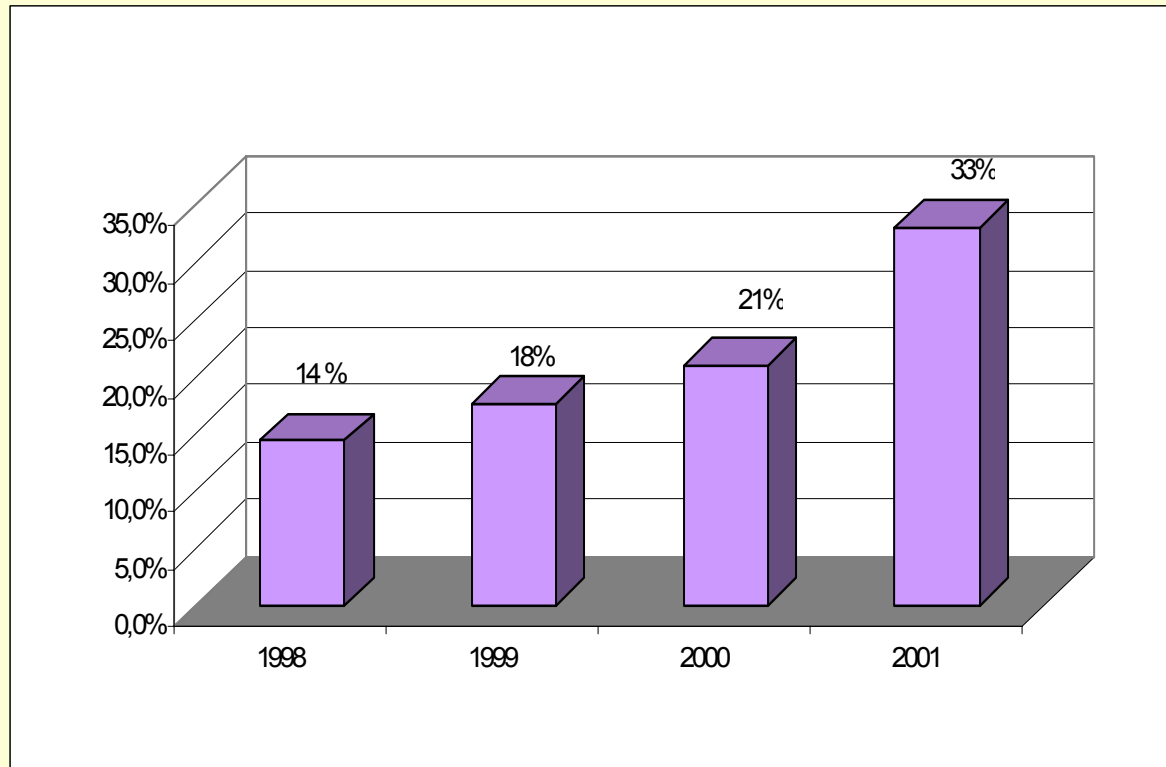
Housing Loans by Collateral



Source: Surveys of MoF

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Mortgage Banking Loans in Housing Loans



Source: Surveys of MOF

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Situation in Slovenia – funding side

- **Deposit financing of housing loans**
- **No secondary mortgage market**



Capital Market Funding -- Choice of the Model

Needs of banks

- High credit profile of the funding instrument == low cost of refinancing
- Cost efficient instruments – low cost of financial intermediation

• Needs of investors

- Issuances (volume, continuity)
- Liquidity on the secondary markets

• What will legal and regulatory system allow ?



Choice of the Instruments (MB:MBS)

- Not exclusive choice
- Not the same answer for all countries
- Different time perspective



Advantages of MB for Slovenia

- Infrastructure
- Point of view of banks
- Investors point of view
- Environment – EU accession



Infrastructure

- Legal infrastructure

- Tax transparency

- Costs



The Point of View of Banks

- Lack of capital pressure
- Mostly interested in transfer of liquidity and interest rate risk to capital markets
- Interested in balance sheet growth



The Point of View of Investors

- Credit quality
- Cash flow performance
- Liquidity



European Environment

- **Foreign investors**
- **EU directives – MB and banks**
 - Low solvency ratio for banks
 - Collateral for their liquidity transactions with the ESCB
- **EU directives – Investors** (Insurance, Investment funds)
 - MB enjoy preferential treatment in investment policies
 - Higher limits for the holdings in the bonds of single issuer; higher investment limits

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