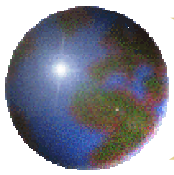


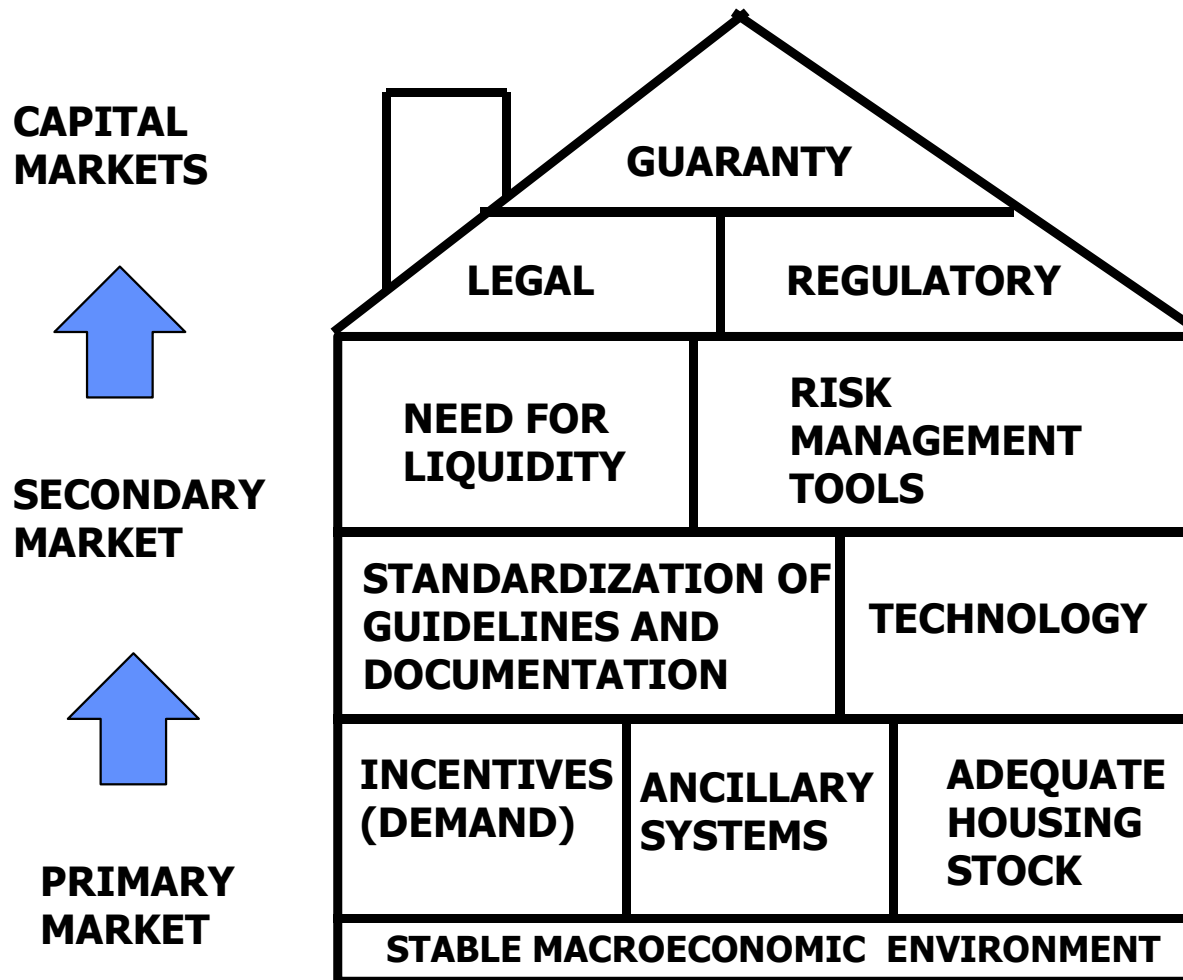
***DEVELOPING SECONDARY  
MORTGAGE MARKETS  
IN SEE  
FEBRUARY 4, 2003***

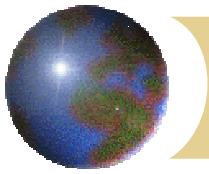
Pamela Lamoreaux – Manager Housing Finance Group  
International Finance Corporation



# OVERVIEW OF HOUSING FINANCE

## *BUILDING BLOCKS OF SUCCESSFUL SYSTEM*





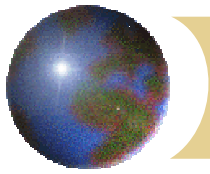
# WHICH WAY TO GO



No one model or  
“right answer”

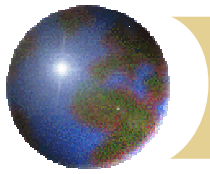
Well-thought out  
plan between  
government  
and private  
participants





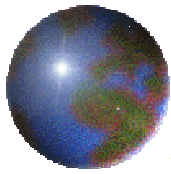
## *Preconditions For a Secondary Market*

- The most critical factors to support the viability and sustainability of a secondary mortgage market and securitization program are:
  - Stable or improving macroeconomic environment
  - Sufficient legal, tax and regulatory framework (e.g. title, ownership, stamp duty)
  - Robust primary market operations and standardization (e.g. technology, appraisal/valuation standards, credit bureau, title insurance, private mortgage insurance, rating agency(ies))
  - Capital market preparedness and appetite for MBS/bonds
  - Economic incentives for secondary market participation



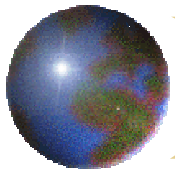
## *Benefits Of Establishing SM*

- More reliable and stable source of liquidity--help banks to meet future capital needs in light of BASLE and concentration targets
- Strengthen primary market
  - standardize guidelines and documentation
  - technology-shared cost and expertise
  - improved quality of assets
- More systematic approach to risk-controls for safety and soundness
- Greater transparency and disclosure
- May increase the involvement of the private sector and help to dissipate various risks
- Deepening of the capital markets by increasing the confidence of the both domestic and international investors
- Lowers the cost of borrowing and gives more options to borrowers
- May lead to deregulation and increased competition



## *Obstacles to Secondary Markets*

- Markets too small
- Deterioration of asset quality of banks
- Banks have excess liquidity – no need for funds
- Lack of specialized primary market lending institutions (non-deposit-taking)
- Lack of adequate and inexpensive funding sources
- Reduction in other types of lending ( e.g. corporate lending, trade finance) has created very competitive “price war” – slow down in mortgage origination – may not be market rate pricing
- Banks reluctant to get rid of high-quality mortgage assets
- Lack of regulatory/tax incentives to sell mortgages (if off-balance sheet)
- Weakened ability to affect monetary policy
- Public sector has unfair subsidies, not a “level playing field”

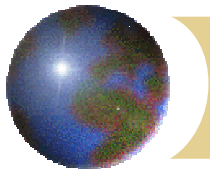


# VARIOUS APPROACHES



## *Developing Capital/Secondary Markets*

- Collaboration with number of parties
  - Poland, Colombia, Romania
- Balancing of public and private involvement
  - Korea, India, Bangladesh, Mexico
- Regional integration – cross border
  - Baltic States, Central America
- Capital markets reform
  - Poland, Colombia, Korea, Bulgaria, Romania



## *Preconditions For a Secondary Market*

- The four most critical factors to support the viability and sustainability of a secondary mortgage market and securitization program are:
  - Sufficient legal, tax and regulatory framework
  - Robust primary market operations and standardization
  - Capital market preparedness and appetite for MBS
  - Economic incentives for secondary market participation