

HOW IMPORTANT IS AN EFFECTIVE PRIMARY MARKET.....

**to the development
of a secondary
market?**

When the Cart is in front of the Horse!

- **Quotes over the last decade from (more than a few) emerging and transition nations:**
 - **“ We can’t develop our primary market because we don’t have a secondary market.”**
 - **“We don’t have any primary market because we can’t develop our secondary market.”**
 - **“We need a secondary market here in order to get things started.”**

Primary Markets can Get Started without a Secondary Market

- **World-wide, primary markets have developed and grown without any secondary markets**
- **Examples abound in Asia, Latin America, and the transition nations**
- **Universal banks fund themselves from deposits; non-bank financial institutions may find funding a bit more difficult, but also succeed**

Let's Get the Horse in Front

- **The Primary Market is the engine of the housing finance sector**
- **The legal foundations and financial efficiency of the primary market will determine the emergence and effectiveness of the Secondary Market**
- **Ultimately, of course, the Primary Market will benefit from long-term funding via the Secondary**

PREREQUISITES FOR CREATING MORTGAGE- BACKED DEBT

- **Robust primary market**
- **Primary market legal framework**
- **Standardization in documents**
- **Standardization in valuation**
- **IT systems & credit risk data**
- **Government doesn't crowd out private sector or threaten level playing field**

Mortgage Market Risk Evaluation Criteria

Legal Risk	Basic enabling laws; foreclosure; titling & registration; regulation
Credit Risk	Credit bureau; valuation systems; credit enhancement; IT systems
Cash Flow Risk	Mortgage product design for interest rate risk; liquidity facility
Duration Gap	Cost-effective access to long-term funds;
Political & Economic	Stable environment; banking reform; capital market development; level playing field & competition; industry associations
System Risk	Subsidy policies consistent with market system; level playing field; no moral hazard from unnecessary govt. guarantees; risk sharing policies; supportive regulatory policies

Support Systems for the Primary Mortgage Market

- ****Legal Infrastructure**
- ****Credit Bureau**
- ****Appropriate Valuation Methodologies & Valuer Training and Accreditation**
- ****Bankers Association**
- ****Credit Enhancements & LTV Rules**
- **Regulation & Supervision: risk control /incentives**
- **Standard documents & products; good IT**
- **Realtor Industry and Information Systems**