



Mortgage Market in Romania

Domenia Credit – Case Study

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1. Legal aspects
2. Institutions
3. Overview

Legal Aspects

Mortgage law

- sets framework for credit activity, primary market players and opens the door for secondary mortgage market;

Foreclosure laws

- court procedures not required;

Title and ownership rights

- assessed as adequate for operation of the mortgage market

Mortgage registration

- rank ensured by the date of filling the request;
- relatively quick-2 weeks timeframe to obtain the mortgage title;
- no central registry of mortgages

Insurance

- only property insurance is mandatory

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Institutions

Regulatory body: National Bank of Romania

**Originators: credit institutions, saving bank,
specialized mortgage financial institutions,
National Housing Agency**

**Appraisal Policies: high quality, real estate
valuation undertaken by independent valuers
licensed by ANEVAR**

**Real Estate Industry: extensive realtors network
organized in two association; no sharing of sales
information**

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Overview

Size of the market:

- commercial and residential market above 1.5% of GDP (approx. US\$ 844 million as of March 2004);
- residential mortgage market above 1% of the GDP (approx. US\$ 670 million as of March 2004);

Underwriting criteria on residential market:

- Loan-To-Value < 75%;
- Payment-To-Net Income < 35%

Default rate:

- below 0.35% - portfolios still in the first 2 years of their life

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Overview (cont.)

Products for residential mortgage market:

- Maturity – up to 20 year; most of the loans in the 10 year range;
- Currency: US\$/ EURO/ ROL
- Type: mostly variable products
- Prepayment: allowed
- Margin: in the 8% range

News:

- Small tax incentive through interest deduction

Under development:

- Mortgage law further improvement;
- Standardization of residential mortgage documentation

- 1. Short History**
- 2. Goals/Strategy**
- 3. Operations**
- 4. Portfolio overview**
- 5. Current development**

Short History

Program started in 2001 under RAEF

- USAID provided a grant for setting-up the crediting operations and selected SAS to provided the technical assistance

December, 2002- Mortgage legal framework has been improved and mortgage law became applicable

February, 2003- RAEF has incorporated Domenia Credit

July 2003 –US\$ 7 million credit line financing was concluded

- Funds are provided by Raiffeisen based on a 50% US Government guarantee (under the DCA program)

December 2003 – DEG, EBRD and IFC provide further financing of US\$ 19 million

Year 2004- Domenia Credit has positioned itself as a mortgage market specialist

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Goals/ Strategy

Goal: stimulate the development of the primary residential mortgage market and lead to the creation of the secondary mortgage market in Romania

Strategy:

- **Twofold financing strategy – first stage to rely on IFIs funding and to move on the capital market funding**
- **proactive involvement in developing a mortgage lending standard that is based on international and local practice**
- **develop a portfolio of standardized residential mortgage products based on the initial funding**
- **take the lead in the creation of a secondary mortgage market**

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Operations

Main feature: structured from the very beginning under standardized approach (regarding documentation, files, products and servicing)

Crediting

- borrower assessment (relationship based; income, assets and character appraised)
- centralized decision
- closing process carefully designed

Personnel Training

- programs have been developed and pursued

Servicing

- data collection (borrowers, collateral, prepayments, defaults, delinquency)
- reporting facility
- data analysis (static & dynamic)

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Operations (cont)

Monitoring procedures

- Collaterals
- Borrowers
- Property insurance

Risk management

- File structure and maintenance; storage and access control;
- MIS – procedure for regular back-up
- Internal/ External audit and quality control procedures
- To be further implemented disaster recovery schemes and emergency contingent plans

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Portfolio Overview

Weighted Average Term to Maturity: 9.42 years

Weighted Average Loan-To-Value: 58%

Average loan size: US\$ 17,000

Prepayment: 5.82%

Average life: not enough data to be properly estimated; expected-6 years

Maximum number days of delinquency: 15

Default rate:0%

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Further developments

Rapid growth of the mortgage portfolio through direct origination or through purchasing from other originators

Strengthen the organization

Strong involvement in developing the legal framework for primary and secondary market development

Start promoting mortgage backed papers among potential investors

Start structuring with other originators and donors a first MBS issue where main challenges to be addressed are credit enhancement and liquidity facility

Undergoing
market
developments

Domenia ^ Credit
Leading role

Secondary mortgage market (1)

Donors/ Assessors: USAID; IFC; World Bank; EBRD; German Mortgage Association

Framework: Round Table

Goal: Develop a secondary mortgage market in Romania

Organizer: Deloitte&Touche for the local market/ Urban Institute –regional market

Participants: private (originators, RAEF, law firms) and public institutions (MLPTT, NBR, CNVM, MoF)

Secondary mortgage market (2)

Outstanding feature: Private and public institutions are extremely interested into developing this market

Results:

- Standardization of contracts
- Draft of the following laws have been circulated and discussed: Mortgage Bond Law, Mortgage Law amendments, and Assets Securitization Law.

Challenge: to create a liquid secondary market (liquidity facility, tax and accounting issues to be solved)