

EBRD Mortgage Activities: Progress Towards Functioning Mortgage Markets

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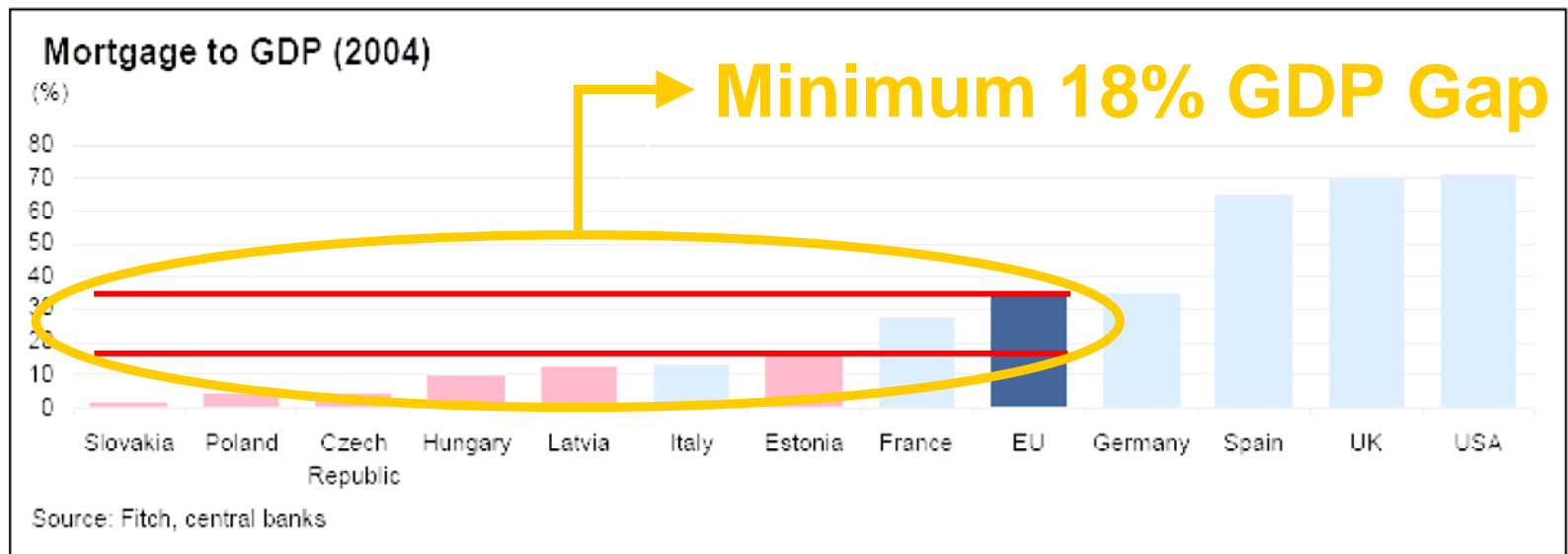
Presentation Overview

- ***The Need for Action***
- What Is EBRD Doing?
- Where Are The Markets Now?
- Where Next?



Need for action identified at the first SEE mortgage conference in 2003

- Main problem highlighted in 2003 was the low level of mortgage finance in the SEE relative to GDP
- Even in the New EU States, mortgage markets needed to double vs. GDP to reach EU averages



Need for action identified at the first SEE mortgage conference in 2003

- Reasons for this under-development included the lack of:
 - complete legal and regulatory frameworks
 - efficient supporting administration e.g. land registries
 - long term finance for banks
 - secondary market mechanisms



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EBRD strategy

- Developing the residential mortgage market is an important part of developing fully functioning market economies

EBRD will provide practical support on all aspects of development to build functioning mortgage markets

- Legal and regulatory framework development
- Primary mortgage lending
- Secondary market development



EBRD projects and pipeline, end-2005

- Over €589 million of signed loans to 29 banks in 11 countries
- €54 million line of support for mortgage bond issues in Poland
- Pipeline of over €100 million
- New projects include both primary finance and development of bond markets



EBRD mortgage portfolio (as of 31 December 2005)

<i>Country</i>	<i>Number of Transactions</i>	<i>Type</i>	<i>Value EUR mln. equiv., (preliminary data)</i>
Belarus	1	Debt	13
Bulgaria	1	Debt	15
Croatia	4	Debt	156
Estonia	3	Debt	20
Kazakhstan	3	Debt	14
Poland	1	Bonds	54
Romania	9	Debt/Equity	174
Russia	6	Debt / LC	81
Slovenia	1	Debt	10
Serbia	3	Debt	30
Ukraine	3	Debt	23
Total	35	X	589



EBRD mortgage pipeline (as of 31 December 2005)

- Bulgaria - 1 transaction
- Hungary - 1 transaction
- Romania - 2 transactions
- Russia - 4 transactions
- Ukraine - 3 transactions
- Serbia - 3 transactions
- Moldova - 2 tech. assistance



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Where Are the Markets Now?

- The Primary Markets:
 - Case Study of Romania
- The Secondary Markets:
 - Update on Standardisation Efforts



Romania: the Primary Market has come a long way in a short time

- Residential mortgage market grew by 47% in 2005:
 - USD 1.69 bln at end-2005 (source: Domenia Credit)
 - USD 100m at end-2002 (source: SEE MFN)
- Most commercial banks offer mortgages compared with only 4 banks offering mortgages at end-2002
- In addition, specialist mortgage companies provide keen competition for the banks



Mortgage lending has become a **normal** part of retail financial services



Romania: EBRD's finance tracked the growth of the Primary Market

<i>Banks/Mortgage Institution</i>	<i>Date</i>	<i>Amount -€ mln (preliminary data)</i>	<i>Status</i>
BCR (I & II)	Jan. 2003	50	fully disbursed
	Nov. 2005	50	disbursing
Bancpost (I & II)	May 2003	20	fully disbursed
	Dec. 2004	20	disbursing
Banca Transilvania	Dec. 2003	10	fully disbursed
HVB Romania	Dec. 2004	10	fully disbursed
Banca Transilvania	Dec. 2004	2.5	fully disbursed
Domenia Credit (I & II)	Dec. 2003	11	fully disbursed
	Dec. 2005		disbursing
Total	X	174	X



Romania: major bank case study

Banca Comerciala Romana

- Leading commercial bank in the Romanian mortgage market (35% share as of end-2005)
- Total portfolio of mortgage and housing loans of EUR 450 mln with 43% portfolio growth in 2005
- More than 44,000 Romanian individuals/families benefited from its mortgage/housing loans sold all over Romania (branch network of more than 360 units)
- EBRD has supported BCR with EUR 100m in long-term mortgage financing



Romania: specialist mortgage company case study

Domenia Credit

- Specialist mortgage lender majority owned by the Romanian American Enterprise Fund, together with DEG and EBRD
- Market share of 1.5% with portfolio of USD 26 million
- More than 1,100 clients have benefited from its loans and is expanding its branch network across Romania
- Differentiated itself from competitors through clear products and high levels of customer service
- EBRD has supported Domenia with USD 1.5m in equity and EUR 10m in long-term mortgage financing



Romania: increasing activity in residential development

- Real estate investment in Romania expected to multiply money invested by 4 times in 10 years, (source: PwC)
- Accelerated real estates price increase in the context of Romania's EU membership
- Large residential developments such as Central Park, 28,000 sq. metres with apartments priced between EUR 100,000 and EUR 300,000



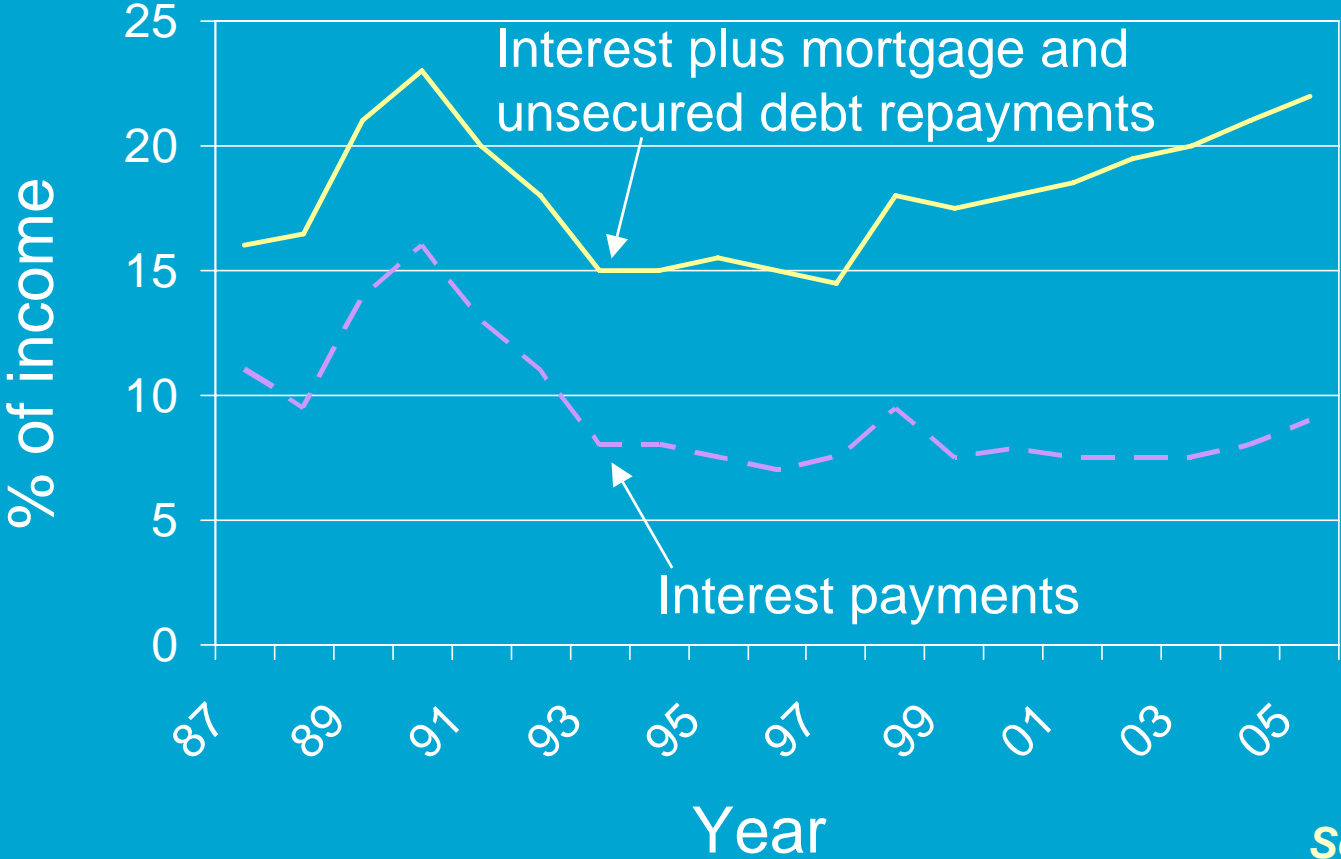
Romania: still serious limitations to the Primary Market

- Significant unsatisfied demand for housing, especially in relation to the younger generation
- Worries that mortgage lending is growing too fast
- Exchange rate risk awareness is not high amongst Romanian mortgage borrowers, ROL lending is low
- Mortgage regulations by the NBR in February 2004, new restrictions in September 2005 and December 2005 (MRR 40% for forex)

But the concerns becoming similar to developed markets: themes are **affordability** and **indebtedness**



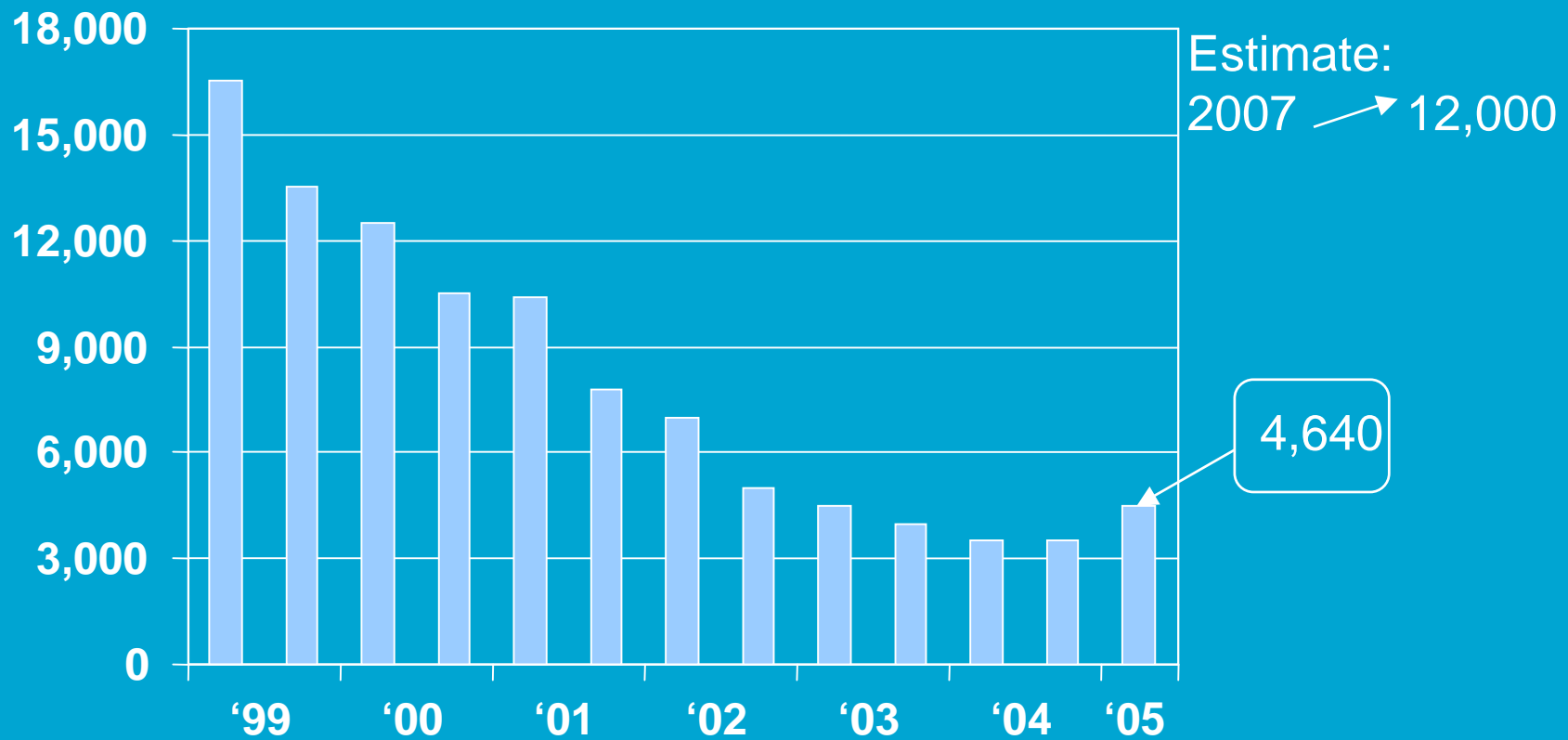
UK: rising indebtedness levels



Source: Deloitte



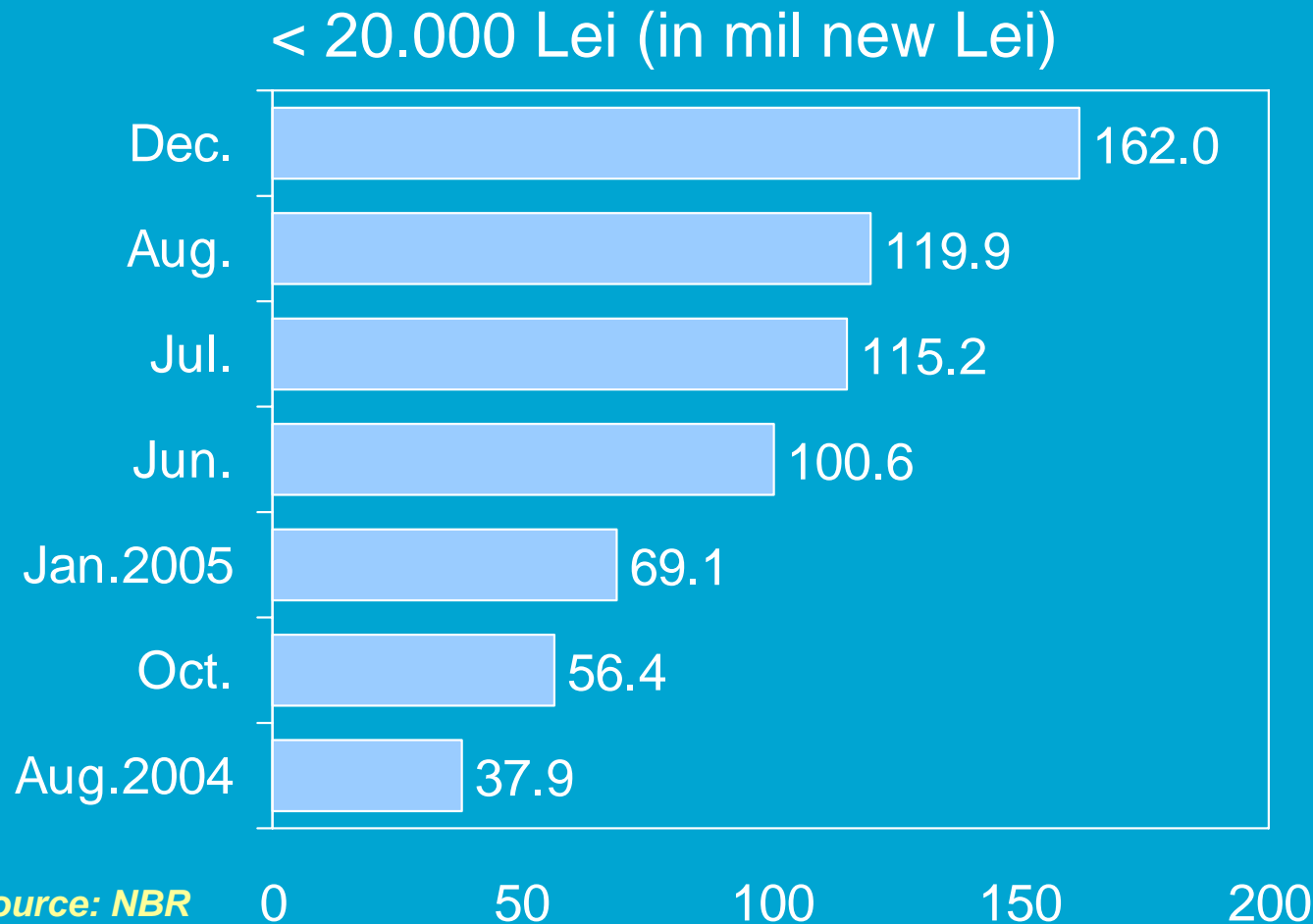
UK spectre: number of mortgage repossessions



Source: CML Research



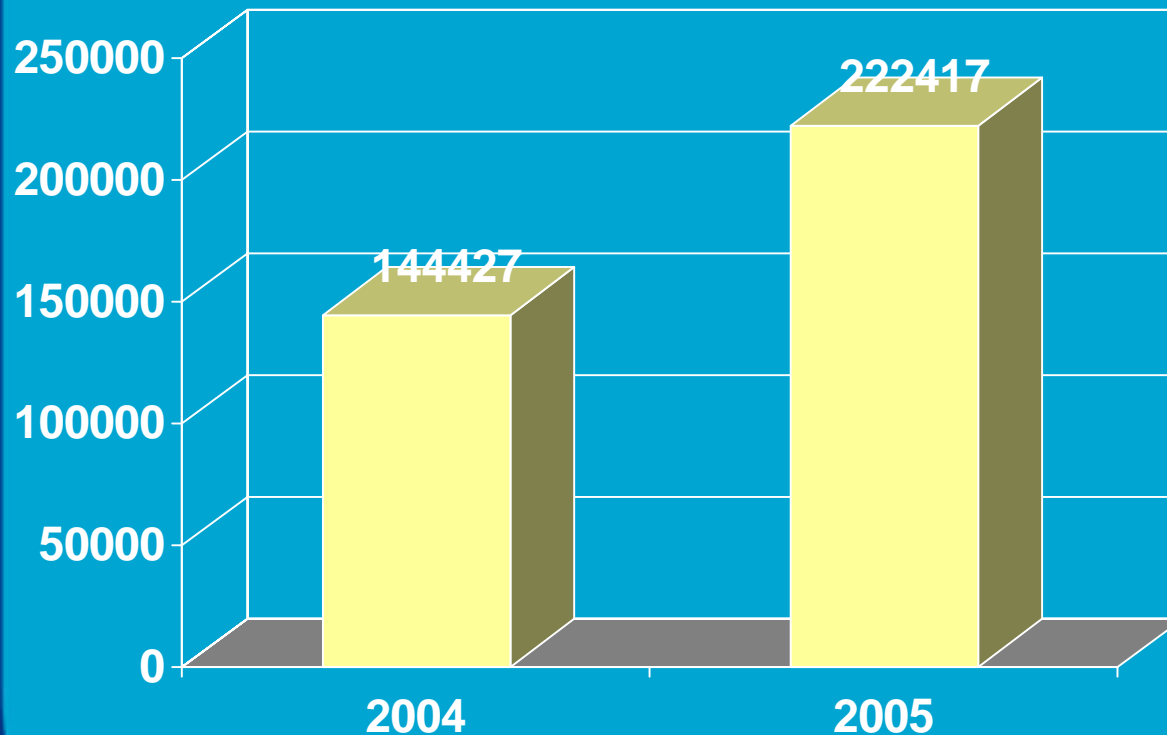
Romania: level of arrears for small loans to individuals



Source: NBR



Romania: number of individuals in arrears (over 30 days)



Factors:
-over-borrowing?
-aggressive publicity?
-unfair competition?

Source: Credit Bureau



Romania: pricing is high in an international context

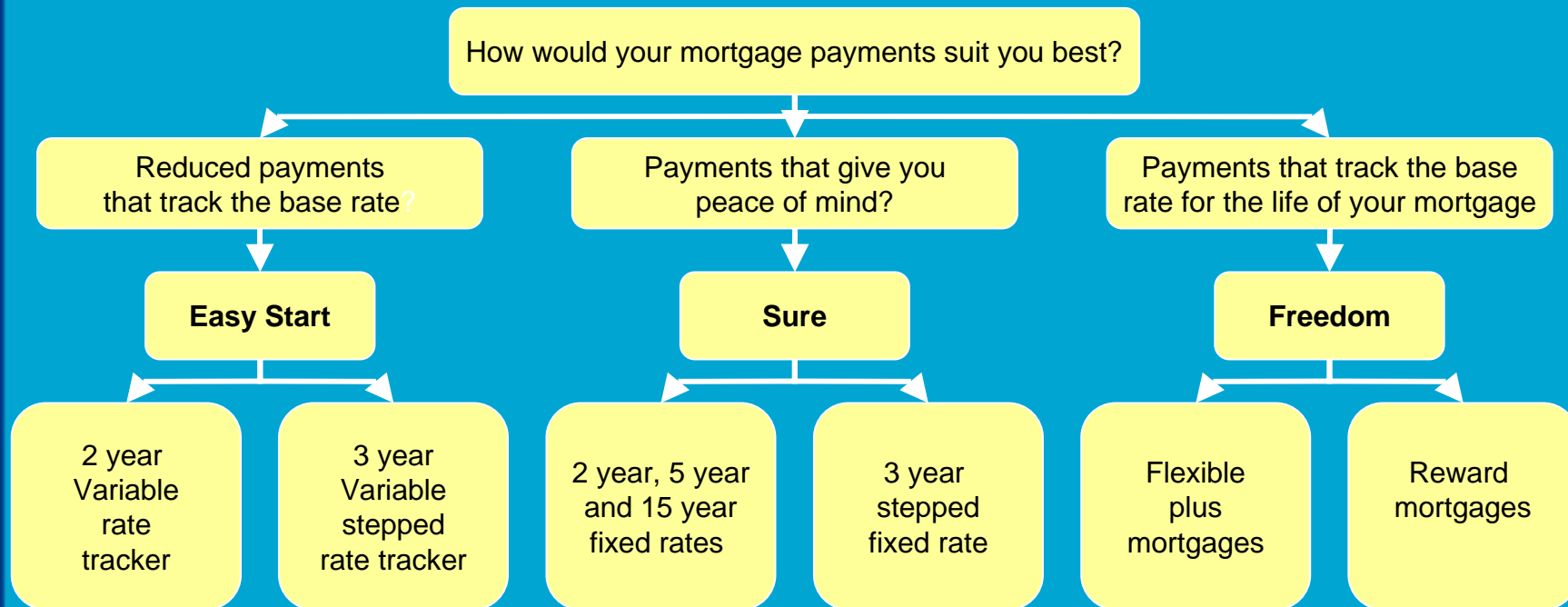
<i>Country</i>	<i>Rates from</i>	<i>Currency</i>
America	1.5%	dollars
Bulgaria	7.5%	euro
France	2.75%	euro
Poland	4%	Swiss francs*
Serbia	4.5%	Swiss francs*
Portugal & Spain	2.75%	euro
Romania	8.00-8.50%	euro
UK	4.48%	sterling

*Works out cheaper than a euro deal

Source: Conti Financial Services & EBRD



Romania: products still limited, compared with UK banks



Mortgages: a good or bad thing for your health?

- Mortgages fulfil the dreams of millions of individuals but are a very expensive business
- Recent medical studies show that mortgages could be bad for your health (British Medical Association), with mortgage arrears linked to mental breakdowns, drinking or smoking, car crashes and family break-ups
- Commercial banks, regulators and other key players in the mortgage market should show prudence based on the test of **affordability**
- Potential of mortgage market should be tapped wisely, applying sound banking principles



Where Are the Markets Now?

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- The Secondary Markets:
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Secondary Market development has not kept pace with Primary Markets

- Limited issuance of mortgage bonds - except in Hungary - and almost no mortgage securitisation activity
- Securitisation is picking up for consumer and leasing receivables across the region
- EBRD recently participated as a buyer of the mezzanine tranche in the EUR 250 million Russian Standard Bank securitisation
- Introduction of much awaited laws such as the Romanian legislative package approved in February 2006 should improve the situation



Standardisation efforts are continuing

- Standardisation was seen as a key requirement in developing a sustainable and self financing primary mortgage market in the region
- EBRD continues to lay the foundations for the secondary market with standardisation efforts
- EBRD Mortgage Minimum Standards contain a comprehensive list of requirements for mortgage lenders grouped under a number of themes...



Mortgage lending minimum standards

Themes

The Mortgage
Process

Mortgage
Documentation

Business
Structure

Property
Valuation

Property
Ownership

Insurance

Credit & Risk
Management

Lending
Criteria

Security
Requirements

MIS/IT &
Account
Management



Focus on Lending Criteria

Minimum Standards

- *Loan Purpose*
- *Product Type*
- *Property Location*
- *Borrower Profile/Age*
- *Loan Term*
- *Min/Max Amount*
- *Affordability Test*
- *LTV Ratio*
- *Valuation*
- *Tenure*
- *Security*
- *Verification*

Best Practice

- *Geographic/Employer Spread*
- *Max 80% LTV unless supported by MIG*



Standardisation and securitisation

- EBRD Mortgage Minimum Standards have been applied to all our projects from mid 2004 onwards, totalling approx. EUR 210 million across seven countries
- Many clients have applied the standards to their whole portfolio not just EBRD-financed loans
- Strong performance of these portfolios to date with low levels of arrears
- Minimum Standards should promote
 - Prudent Business Management
 - Creation of Benchmark Mortgage Pools



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Where Next?

- In the SEE, the development of secondary markets is needed to ensure sustainable funding.
- EBRD is optimistic this will happen in a short period of time and is keen to support any potential issuer
- EBRD will remain active in mortgage finance and is now promoting mortgages further south and east:
 - Lending programmes ongoing in Russia & Ukraine
 - Legal reform in Moldova
 - Business development in Georgia, Armenia and Azerbaijan



Presentation Summary

- EBRD is active with a substantial portfolio and pipeline of mortgage loans
- Primary mortgage markets are working in the region, with the normalisation of both lending and the issues arising from it
- Secondary markets are still under-developed but the pre-conditions are gradually being fulfilled through standardisation and legislation
- EBRD is working to make sure that loans it finances can be used for secondary markets



EBRD: contact details

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