



USAID
Mortgage Lending in Southeast Europe:
Heading for International Best Practice
Bucharest, Romania
April 5-6, 2006



CONTENTS

INTERNATIONAL EXPERIENCE REGARDING:

- Regulatory Environment
- Development of Primary Mortgage Market
- Implementation of Secondary Markets
- Turkish Environment and Lessons

No dispute anywhere that an efficient housing finance system can be the most powerful engine for social and economic development—however, it must be managed carefully



“BUILD IT AND THEY SHALL COME”

REGULATORY ENVIRONMENT IS KEY

GROWTH OF MORTGAGE LENDING/CAPITAL MARKETS:

- Capital Adequacy Guidelines (risk weighting, concentration risk, regulatory oversight, capital treatment)
- Transfer, Title/Ownership (including fees and stamp duties)
- Underwriting Criteria (i.e. LTV, fixed vs. floating interest rate, consumer disclosure/protection issues)
- Incentives (tax deduction/credits, subsidized rates, etc.)
- Foreclosure, Eviction

“TOUGH LOVE”

DISCIPLINED PRIMARY MARKET

DEVELOPMENT OF PRIMARY MARKET:

- ❑ Competitive forces can be dangerous (“price wars”, relaxed credit/underwriting standards, banks concentrating assets in one asset class)
- ❑ Market Based Pricing (more options in the secondary market)
- ❑ Adequate staffing and IT Systems
- ❑ Peripheral Services (i.e. credit bureau, property valuers, rating agency)
- ❑ Innovative Product Development (variety of products)

CINDERELLA'S BALL

DON'T WANT SECONDARY MARKET TO DISAPPEAR AT STROKE OF MIDNIGHT

SECONDARY MARKET MUST BE FEASIBLE AND SUSTAINABLE:

- Reluctance of banks to part with mortgage assets (may need regulator “push”)
- Incentives (government may need to “kick-start”) for sellers and buyers of MBS or other capital market instruments
- Proper legal infrastructure (both local and domestic capital markets)
- Environment should support a number of products and let market forces dictate
- Investor Education

REAL AND HOPED FOR BENEFITS FROM SECONDARY MARKET

- Risk Management (Colombia, Hong Kong, India, Turkey)
 - Concentration Risk
 - Mismatch of assets/liabilities
 - Currency risk
- Liquidity – (Colombia, Hong Kong, India, Mexico)
- Stimulate Primary Market (Colombia, Hong Kong, India, Korea, Malaysia, South Africa, Turkey)
 - New Products (fixed/floating, MI Insurance)
 - Various Currencies
 - Discipline for market based pricing (“price wars”)
 - Level playing field for small-medium lenders or NBFIs vs. Banks
 - Move “down market” to lower income borrowers
- Catalyst for ABS/MBS/MBB (Hong Kong, India, Korea, Malaysia, Mexico, South Africa, Turkey)
 - Pent-up demand of domestic investors (pension funds, insurance)
 - Develop international investors

TURKISH ENVIRONMENT AND LESSONS



TURKISH

DRAFT NEW REAL ESTATE LAW

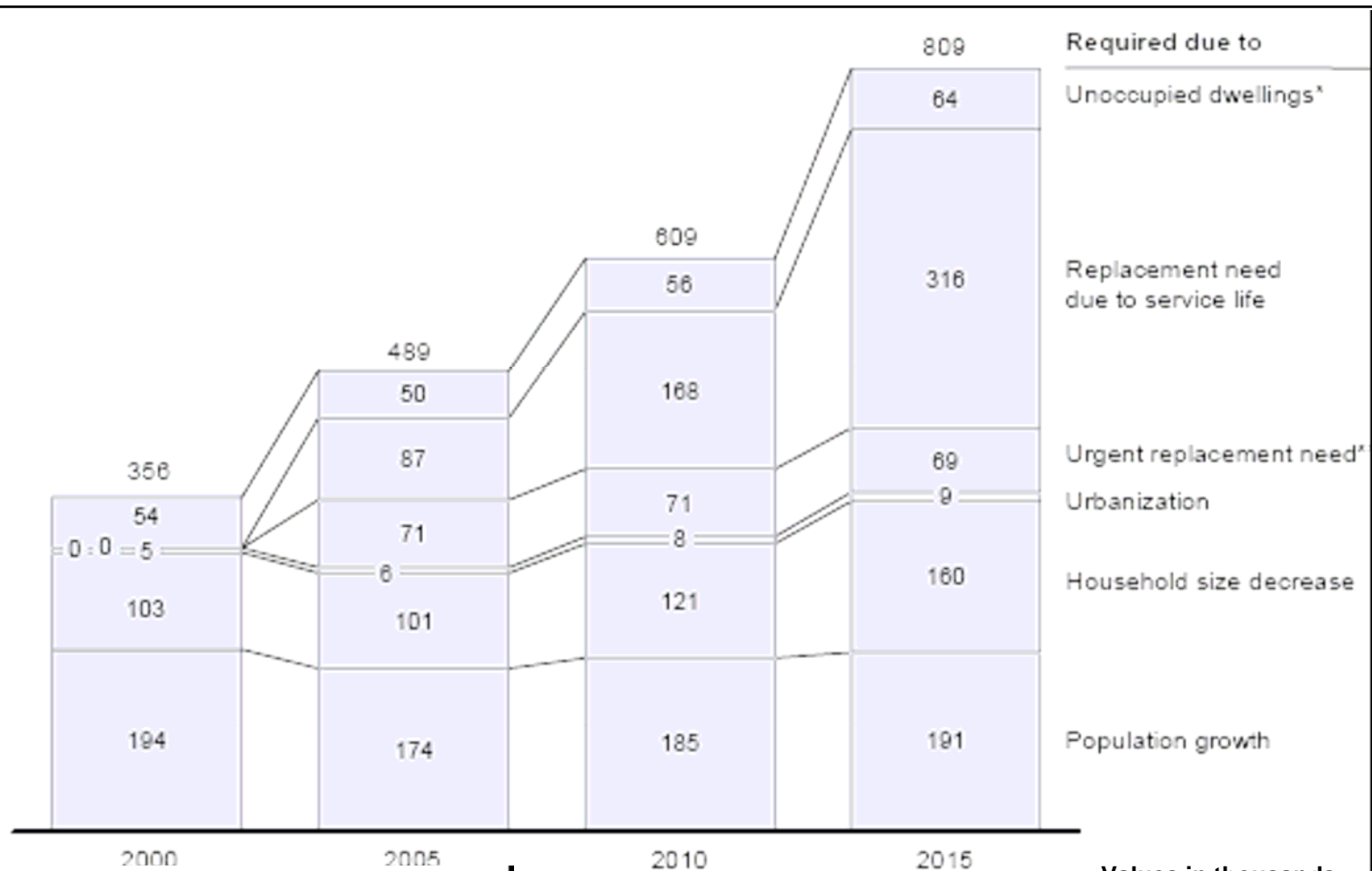
Expected to Pass by Mid-Year 2006

The Draft Law aims to facilitate the establishment of an efficient housing finance system with the following improvements:

- Ease in establishing and transferring liens;
- Well functioning and independent appraisal system;
- Effective and quicker foreclosure procedure;
- Creation of capital market institutions and instruments available for securitization; and
- Government support through tax incentives

MORTGAGE INDICATORS

Annual Need for Housing by 2015



Values in thousands

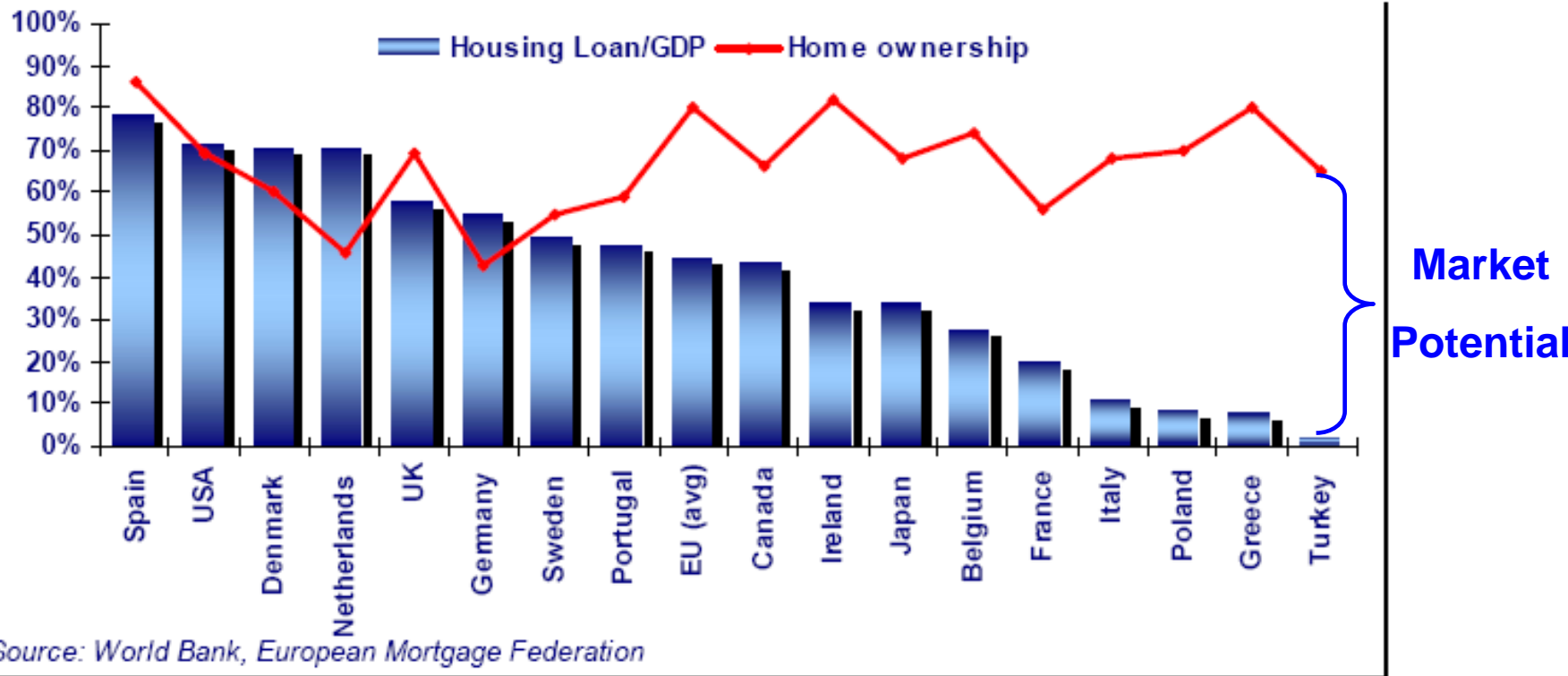
* Second homes and residential construction in progress

** Based on 2000 census

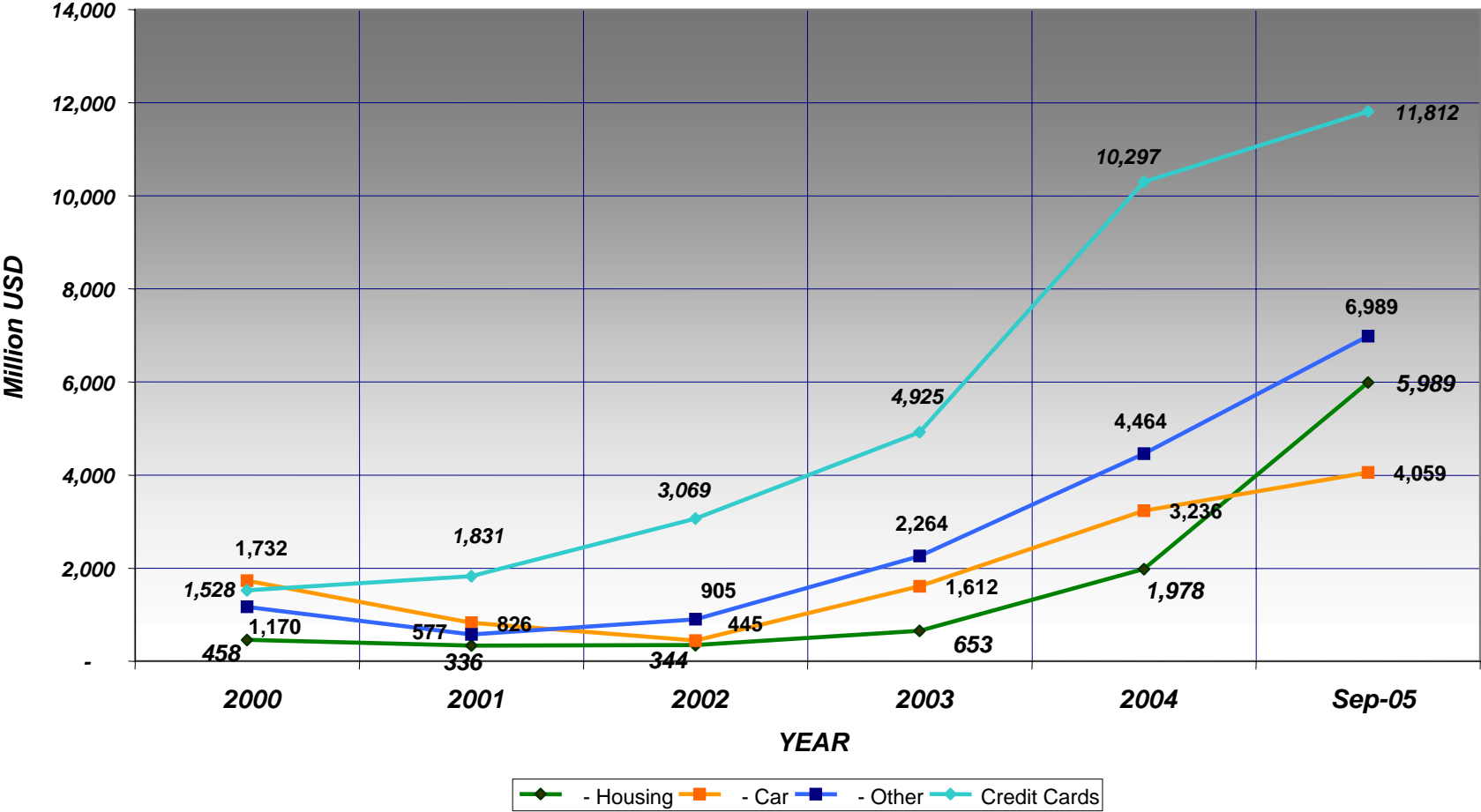
MORTGAGE INDICATORS

Housing Loans & Home Ownership

Housing Loans/GDP & Home Ownership - 2004

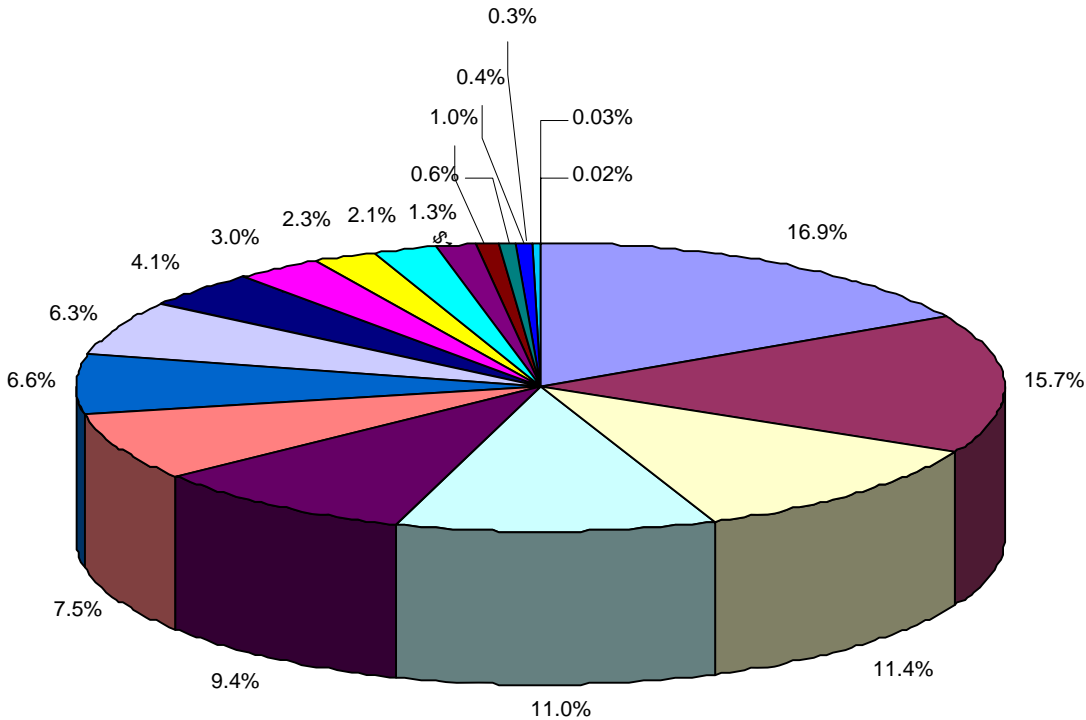


Consumer Loans Volume & Trend



DISTRIBUTION OF HOUSING LOANS BY BANK - TURKEY

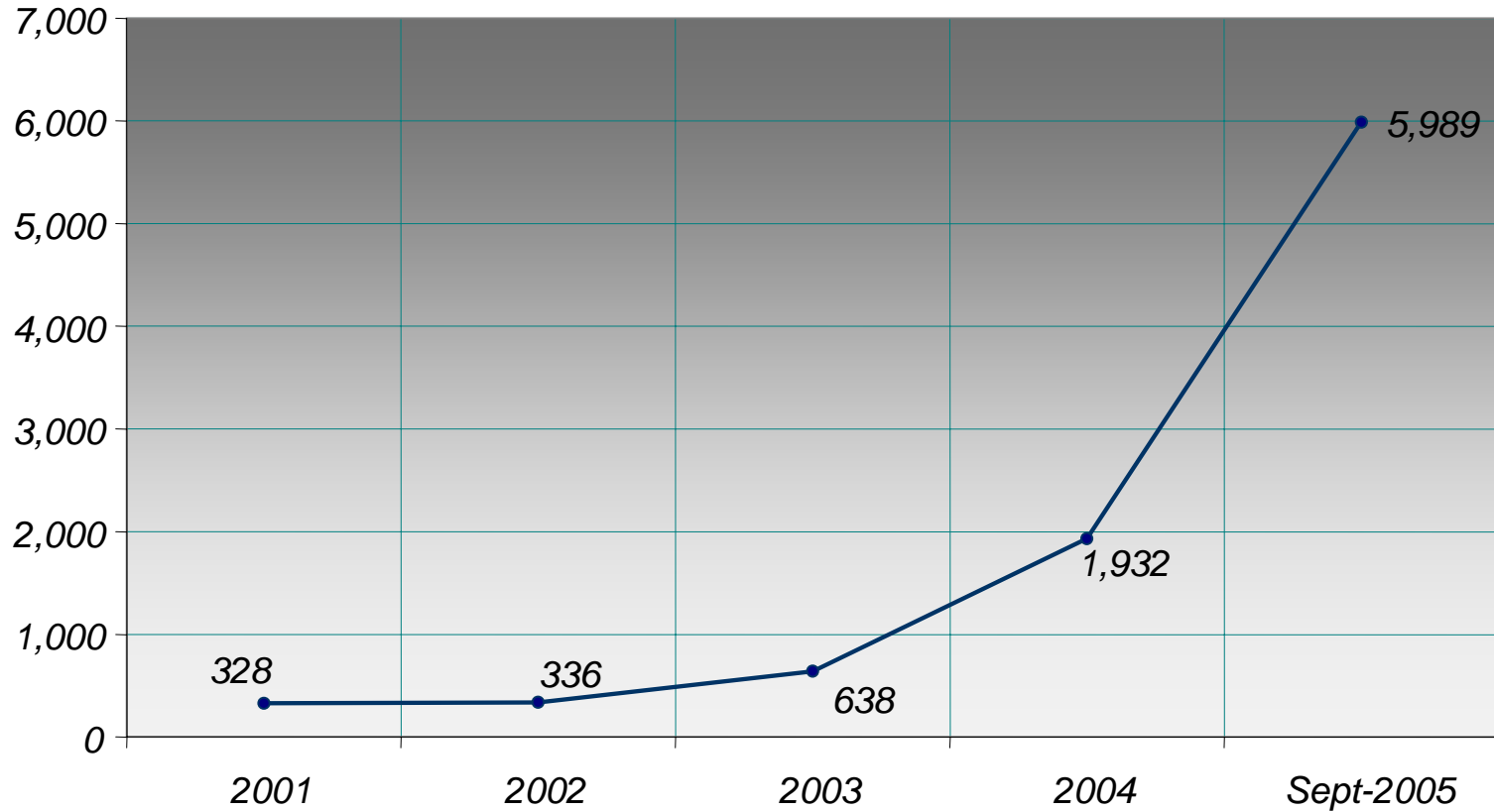
Housing Loan Market Share as of Sept 2005



■	Akbank	\$1,089
■	Isbank	\$1,012
■	Ziraatbank	\$ 735
■	HSBC	\$ 709
■	Garanti	\$606
■	Vakiflar	\$483
■	Oyakbank	\$425
■	Finansbank	\$406
■	YKB	\$264
■	Kocbank	\$193
■	Fortis	\$148
■	Denizbank	\$135
■	BankEuropa	\$84
■	TEB	\$64
■	Halkbank	\$39
■	Sekerbank	\$26
■	Anadolubank	\$19
■	Alternatifbank	\$2
■	Tekstilbank	\$1

Housing Loans Volumes

Million
USD





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