



New Product Development

Product development

1. Product development-
Main drivers
2. Market structure
 - Legal Aspects
 - Policies in place
 - Romanian Market
3. Competition & Products
4. Product financing
5. New Product
Development Strategy

Main drivers

- Strategy
- Market structure and stage of development
- Target market
- Financing structure
- Customers driven

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Legal Aspects

Mortgage law

- Funds have to be used for real estate related investment
- Equity release loans are classified as “consumer loans”

Primary market under NBR supervision

- Underwriting criteria set by NBR
 - Loan-To-Value < 75%;
 - Payment-To-Net Disposable Income < 35%

Policies in place

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- Fiscal policies – no incentive in place except for housing banks (savings contracts)
- Housing policies –under development
- Banking regulations
 - Risk weighting -50%, no special capital relief
 - Foreign currency loans restricted

Romanian market features

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Housing stock prices:

- Euro denominated → Euro mortgage loans
- Average price of existing stock: Euro 40,000
- New constructions prices: Euro 60,000-200,000

- Income underwriting criteria pushes down the average loan size → mortgage loans are mostly financing existing stock

- Ownership rate very high (above 92%)
→ target market for equity release product

Competition

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Institutions providing housing finance

- credit institutions (15),
- saving bank (1),
- mortgage savings banks (2),
- mortgage non-bank institutions (4),
- mortgage banks (0)
- developers (???)

Products Differentiation

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A. Use of funds

- Home Improvement
- Acquisition loans
- Construction loans
- Equity release – not extensively used for SME financing
- Real Estate Investment vs Primary housing

B. Collateral

- First/ second rank
- LTV & real estate liquidity

C. Customer type

- Individual vs. SME
- Income type (source & currency)

Products available in Romania

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- Interest rates – variable
- Maturity – up to 35 years
- Repayment schedule – annuity, recently 7 year balloon
- Prepayment fees- correlated with the interest rates levels
- Currency: Euro&RON (90% of the market Euro denominated)
- Life/ property insurance offered as part of the package

NO DIFFERENTIATION OBSERVED

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Product financing

Deposits



Product constraints: Variable interest rates

Credit lines



Product constraints: similar repayment schedules

Capital markets



If deep and liquid offers product flexibility

New Product Development Strategy

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Advantages:

- More difficult to be copied by competition
- Strengthen the brand
- Does not push the market to un-sustainable interest rates levels
- Deepens the market

Disadvantages:

- Intensive resource allocation for introduction, promotion and dissemination
- Flexible financing structure required

New Product Enhanced Value

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Underwriting & closing process design:

- Process time
- Documentation required

Financing structure – flexible free options to mix the interest and principal; payment options; adjustments to accommodate changing financial burdens

Adjacent services may be added