

EBRD – Mortgage Minimum Standards Initiative

**Peter Stredder
Financial Institutions
2 December 2003**



Presentation overview

- Mortgage Markets in the Region
- EBRD Strategy
- Minimum Standards Manual
- Conclusions



Section one

- *Mortgage Markets in the Region*
- EBRD Strategy
- Some Practical Examples
- Conclusions



Mortgage Markets in the Region

- Mortgage finance is developing but is still small relatively to GDP
- Even the most developed markets are a long way below EU countries (e.g. the UK, where residential mortgage finance is c.59% of GDP)
- Reasons include lack of:
 - complete legal and regulatory frameworks
 - efficient supporting administration e.g. land registries
 - long term finance for banks
 - secondary market mechanisms



Mortgage Markets in the Region

- In basic terms - three steps to building a residential mortgage market:
 - adequate legal and regulatory framework including:
 - enforcement of property rights
 - land registration
 - valuation
 - primary mortgage lending through banks or mortgage companies
 - creation of secondary mortgage markets



Mortgage Markets in the Region

- But the three steps are too simplistic – need to think ahead :
 - apart from IFIs such as EBRD, there are few sources of long term funding to match the terms of mortgage loans
 - development of secondary markets is needed to ensure **sustainability** of lending, either through:
 - mortgage bonds – secured by a pool of mortgages but ultimate risk remains on the primary lender
 - mortgage backed securities (securitisation) – a special purpose vehicle buys the mortgages and issues securities
 - creating secondary markets means planning now e.g. **standardised lending**



Section two

- Mortgage Markets in the Region
- ***EBRD Strategy***
- Minimum Standards Initiative
- Conclusions



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
 - technical co-operation to formulate workable laws
 - policy dialogue with relevant authorities



EBRD strategy

- Primary mortgage lending
 - provide long-term finance to banks and non-banks, plus equity capital to specialist companies in selected cases
 - technical co-operation for banks that need help in developing mortgage lending skills
- Secondary market development
 - standardised lending by the banks and non-banks using EBRD funds
 - support the development of specialised mortgage institutions and agencies / institutions
 - participate in bond or MBS issues to encourage other purchasers and / or provide credit enhancement



EBRD strategy

- Over €200 million of signed loans to 11 banks in 6 countries
- Plus €54 million line of support for mortgage bond issues in Poland
- Pipeline of over €600 million of which €200 million is relatively advanced
- New projects include both primary finance and development of bond markets



Section three

- Mortgage Markets in the Region
- EBRD Strategy
- ***Minimum Standards Manual***
- Conclusions



Minimum Standards Manual

- Standardisation is key for secondary market development
- Up to now, EBRD has reviewed sub loan documentation to ensure it is capable of securitisation, now going further by preparing a Manual that future borrowers will follow
- Manual will ensure MINIMUM STANDARDS for underwriting, documentation and administration
- Manual will also identify BEST PRACTICE
- Project is co-ordinated with other initiatives (esp. in South-Eastern Europe) to have an even wider impact



Minimum Standards Manual

- Appointed Bank of Ireland
- Initial draft of Manual
- Test first in Romania before end 2003
- Rory Spain here today
- Extend to Bulgaria and Croatia
- Completion by end Q1 2004



Minimum Standards Initiative

Contents of Manual

- Underwriting
- Documentation
- Administration
- Appendices – Basics of Securitisation



Minimum Standards Manual

Underwriting

- Product Design
- Sales Channels
- Application Process
- Documentary Evidence
- Property Appraisal
- Risk Assessment – LTV, PTI etc



Minimum Standards Manual

Documentation

- Offer letter
- Insurance
- Loan Agreement
- Mortgage Agreement
- Registration of Title
- Registration of Security



Minimum Standards Manual

Administration

- Data Collection
- IT Systems
- Reporting
- Interest Rates
- Arrears Management



Conclusions

- Demand for EBRD and other IFI finance for mortgage lending shows the need for longer term sources of funding
- EBRD and other IFI's can only provide this to limited extent
- Therefore must plan now for the development of secondary markets
- EBRD can influence this through requiring its borrowers to ensure mortgages they finance meet minimum standards for use as security for secondary markets
- Minimum Standards Manual will be available early in 2004 and is intended to be consistent with other secondary market initiatives



Questions?



Contacts

Financial Institutions Group

Kurt Geiger - Tel: +44 20 7338 7143
Business Group Director Fax: +44 20 7338 7380
e-mail: geigerk@ebrd.com

Bank Equity

M-L Cicognani – Tel: +44 20 7338 7547
Director Fax: +44 20 7338 7380
e-mail: cicognam@ebrd.com

Bank Debt

Rogers Lebaron - Tel: +44 20 7338 7456
Director Fax: +44 20 7338 7380
e-mail: lebaror@ebrd.com

Equity Funds

Kanako Sekine - Tel: +44 20 7338 7324
Director Fax: +44 20 7338 7380
e-mail: sekinek@ebrd.com

Non-Bank Financial Institutions

Jonathan Woollett - Tel: +44 20 7338 6638
Director Fax: +44 20 7338 7029
e-mail: woolletj@ebrd.com

Mortgages

Peter Stredder - Tel: +44 20 7338 6824
Fax: +44 20 7338 6119
email: streddep@ebrd.com

