MORTGAGE IN HOUSING FINANCE IN SLOVENIA

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Warsaw, December 2002
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Where Slovenia currently is?
- Situation and problems

Development of secondary mortgage market
- Goals
- Dilemmas
- Alternative solutions

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Situation in Slovenia - lending side

- Weak role of mortgage finance in housing finance and other non-corporate lending

- Mortgage as collateral is more widely used in corporate finance
Housing Loans by Collateral

Source: Surveys of MoF

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Mortgage Banking Loans in Housing Loans

Source: Surveys of MOF

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Problems in Mortgage Banking

• Land register
  - Lenghty procedures to register real estate
  - Integrity of the land register
  - Land register is not up to date

• Bad protection of mortgage lender
  - Long lasting foreclosure procedures
  - Eviction procedures
  - Problematic foreclosure procedures on not registered real estate

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Situation in Slovenia - funding side

- Deposit financing of housing loans
- No secondary mortgage market

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Development of the Secondary Mortgage Market

- Banks need new long term funding instruments
- Banks need to transfer risks (liquidity risk, interest risk, credit risk) to capital market
- Institutional investors also need such instruments
Capital Market Funding -- Choice of the Model

Needs of banks

- High credit profile of the funding instrument == low cost of refinancing
- Cost efficient instruments – low cost of financial intermediation

Needs of investors

- Issuances (volume, continuity)
- Liquidity on the secondary markets

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Choice of the Instruments (MB:MBS)

- Not exclusive choice

- Advantages of MB for Slovenia
  - Simpler legal and tax infrastructure
  - Less developed financial markets
  - Costs
  - Foreign investors
Institutional Options

- **Universal banking model** – Mortgage bond act

- **Specialized banking model** – Mortgage bank act

- **Cooperative centralized issuers**

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Specialized Mortgage Bank

- Trend
- Advantages regarding rating, cost efficiency, ...
- Disadvantages regarding economy of scale and initial investment

Solution
- Outsourcing ?
- Subsidiary with limited business functions
Universal Bank

- Simple solution
  - Integration of mortgage banking in existing structure
  - No need to new credit institutions
  - No initial investment, no additional staff

- Could the rating of bond be better then the rating of the bank?

- Small issuances with low liquidity

- Is it possible to acquire advantages of mortgage bond in the framework of the universal banking model?

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Cooperative Centralized Issuers

- Ideal solution from the point of view of market size constraints
- Homogenity of the issuances and liquidity
- Problems with transfer of mortgage loans (legal, costs, standardization of the products)
- Interest of banks: cooperation or competition?

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Public Support Measures

- Change of legislation regarding investments of institutional investors
  - Capital requirements (banks)
  - Dispersion of investments (insurance, funds)
- Tax exemptions ?
- Guarantees ?
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Nizko tveganje investorjev = nizek donos

- Tri ravni zaščite investorjev
  - Prednostni položaj investorjev v primeru stečaja izdajatelja
  - Kvalitetno kritno premoženje za obveznosti do investorjev in nadzor skrbnika
  - Specializiranost izdajatelja (omejitvev opravljanja drugih tveganih poslov)
- Likvidnost in stalni tok izdaj obveznic
Nizki stroški posredništva I.

Obvladovanje tveganj

- hipotekarni kredit = nizko kreditno tveganje
- transferiranje obrestnega tveganja na kapitalski trg
- načelo skladnosti med kritnim premoženjem in izdanimi obveznicami (ročnost, obrestna mera, drugo) zmanjšuje tveganje za banko in omogoča nižjo maržo
- predčasno odplačilo kredita?
Nizki stroški posredništva II.

- Načelo specializacije
  - specializiranost znanj, manj ljudi
  - preprosta bilanca
  - enostavnejši nadzor

  ⇒ večja učinkovitost

- Ekonomija obsega
Kritno premoženje -
Kvaliteta: obseg (ekonomija obsega) I.

- Prvovrstna hipoteka
- Nepremičnine, ki so hitro prodajljive
  - stanovanjske nepremičnine in stavbna zemljišča
  - komercialne nepremičnine
  - kmetijska zemljišča
  - proizvodne zmogljivosti
  - komunalna posojila

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Kritno premoženje -
Kvaliteta : obseg (ekonomija obsega) II.

- LTV
- Posojilna vrednost
- Vrednotenje nepremičnin
- Teritorijalni princip - samo Slovenija ali tudi tujina
- Skupni ali ločeni “pooli” kritnega premoženja

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Ekonomija obsega - Projekcija stanovanjskega kreditiranja (v mlrd SIT)

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Ekonomija obsega - Projekcija potenciala za izdajo hipotekarnih in komunalnih obveznic (v mln SIT)

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Obrestne mere (krediti in viri financiranja) v letu 2002

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Obrestne mere

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Stroški zavarovanja posojila

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Mnenje bank - Anketa MF (2002)

- samo dve banki menita, da je potrebno iskati rešitve v smeri specializirane banke ali izdajateljske enote
- 12 bank meni, da je potrebno ostati v okviru univerzalnega bančništva
Development of Mortgage Banking in Slovenia

- Improve access of non-corporate sector to banking loans
  - Long term finance
  - Low interest rates
  - Development of capital market

- Investment opportunity for institutional investors (insurance co., pension funds, ...)

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Banking Business Plans in the Area of Mortgage Crediting

- Surveys of MOF
  - Increase offer of mortgage products (more competitive products, longer maturity, more attention, ...) **7 banks**
  - Conditional increase of offer – improved legislation **7 banks**
  - In present extent **3 banks**

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Typical Mortgage Loan in Slovenia

<table>
<thead>
<tr>
<th>Maturity of the loan</th>
<th>Grat Britain</th>
<th>Germany and Danmark</th>
<th>Spain</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>25 years</td>
<td>25-30 years</td>
<td>10-15 years</td>
<td>15 years</td>
</tr>
</tbody>
</table>

Slovenia 10 years

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Loan to Value

- 8 banks up to 50%
- 5 banks up to 40%
- 2 banks up to 33%
- Varies depending on location, customer, …

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**Interes Rates for Housing Loans**

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![Graph showing interest rates for housing loans](image)
Problems in Mortgage Banking II.

- Evaluation of real estate (questionable market value)
- Favourable loan insurance with insurance companies
- No legislation regarding funding instruments (mortgage bond, …)

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