

Mortgage funding in Hungary – case study



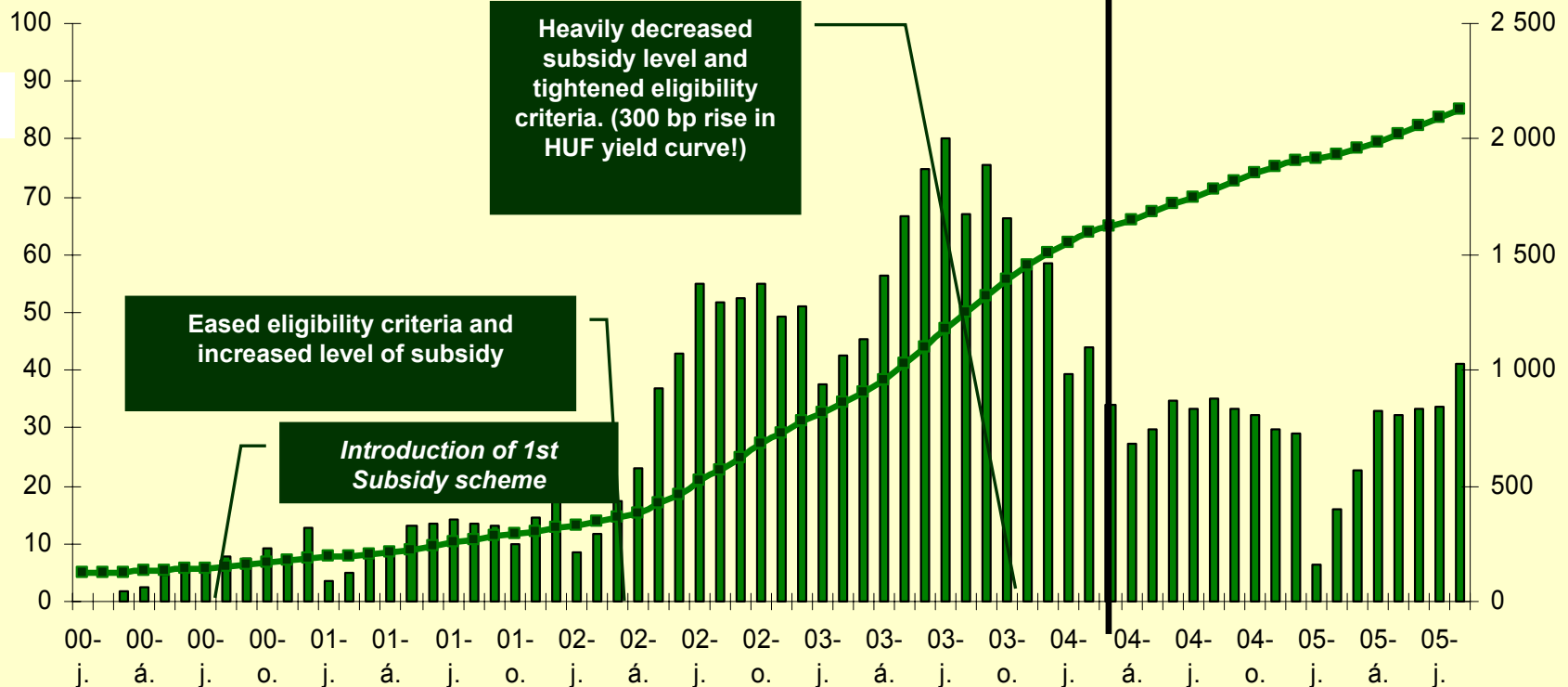
Lászlo Harmati
Deputy CEO
Member of the Board of Directors

FHB Land Credit and Mortgage Bank Ltd



Net monthly growth of housing loans and total outstanding mortgage portfolio in Hungary

Sources: MNB

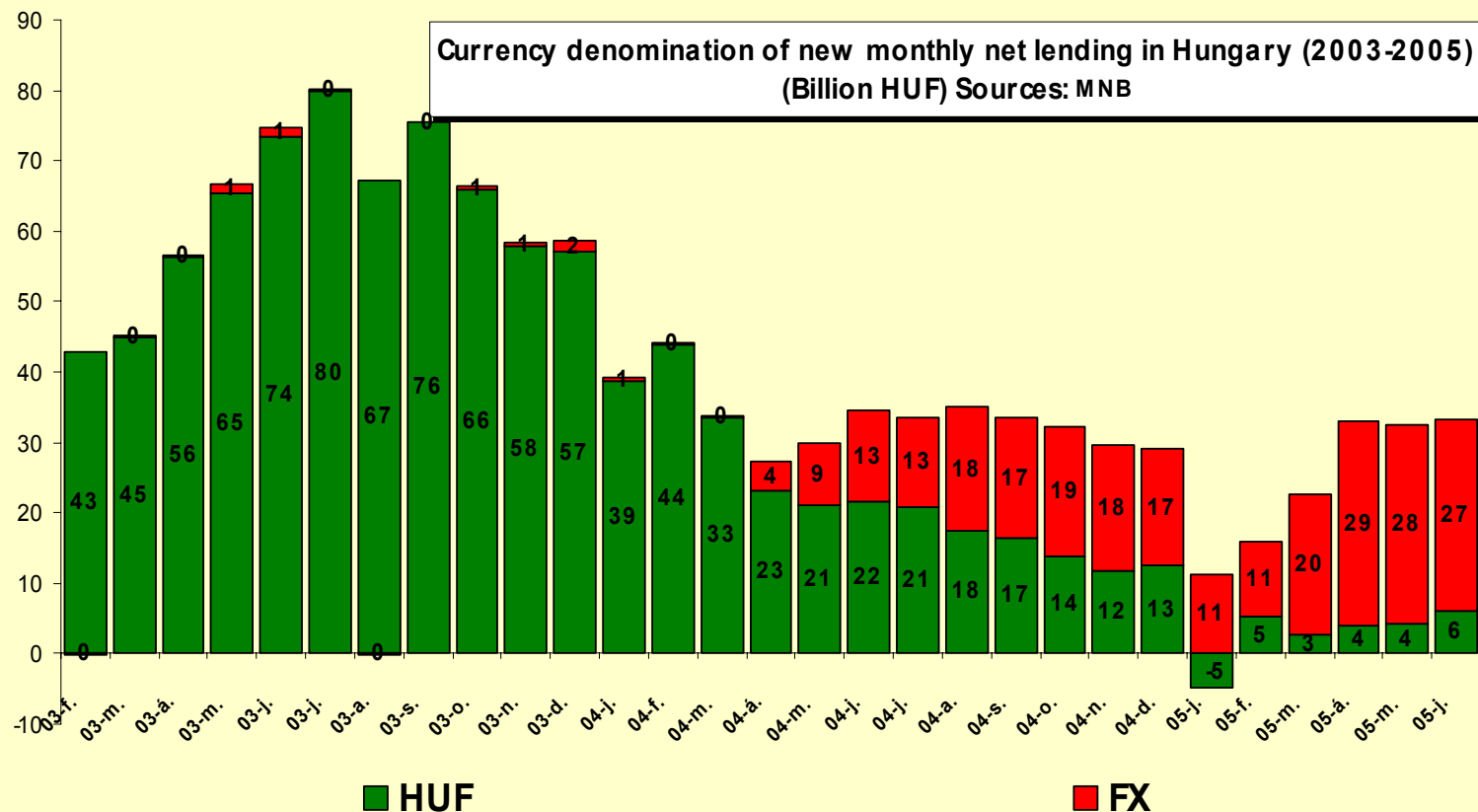


2002-2004 subsidy driven lending boom supported by:

- High house inflation, high homeownership → savings move to real assets
- Improving household income, decreasing yield curve → High autonomous growth rate
- Mortgage growth rate proved to be unsustainable

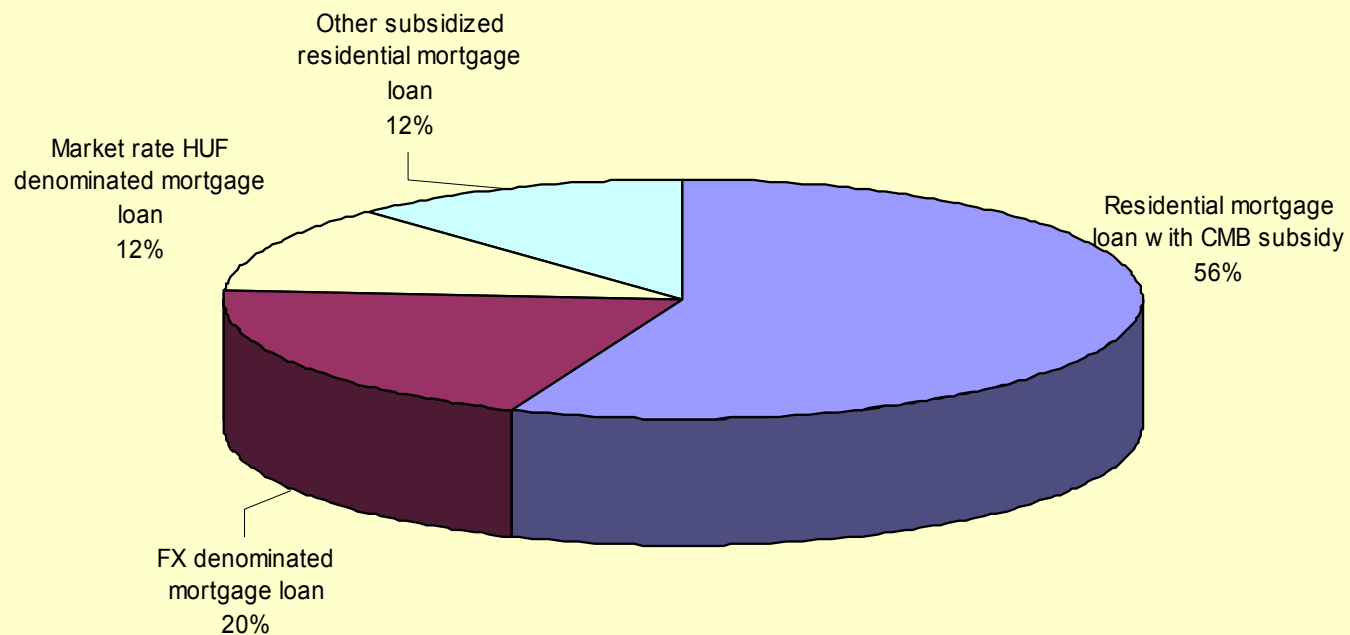
Since 2004: market based development

- High HUF interest rates has turned clients towards FX-based products
- Current monthly net growth (30-35 billion HUF) seems to be sustainable



- Cut in subsidy and simultaneous rise in HUF interest rates have induced market-based FX-denominated mortgage increase
- 20% of the total amount of housing loans and at least 80% of the monthly growth are FX-linked.
- A lot of new lenders entered into the market (more than 100 financial institutions are involved in mortgage lending)

The structure of residential mortgage loans (Q2 2005)



• 90% of CMB funded mortgage loans are subsidized (56% of the total mortgage outstanding volume)



62% of residential mortgage loans are originated or refinanced by mortgage banks

FHB Land Credit and Mortgage Bank (1998)

- Listed company, majority state owned,
- A1 Moody's rating on CMB, Euro EMTN program
- Originates and refinances mortgages (retail and wholesale, HUF and FX)
- Almost 100% residential mortgage
- 10 branches, 52 saving cooperatives, 2000 agents in own lending
- 10 partnerbanks in refinancing

HVB Jelzálogbank

HVB Mortgage Bank (1999)

- Member of the HVB Group
- Refinancing mortgage,
- 4 partnerbanks in refinancing

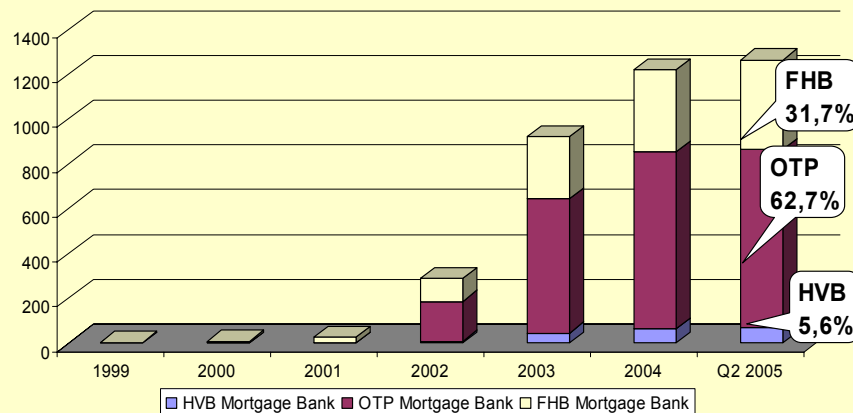


OTP Mortgage Bank (2002)

- Member of the OTP Group
- A1 Moody's rating on CMB
- No own lending, refinance OTP Bank only

Market shares* (2003)

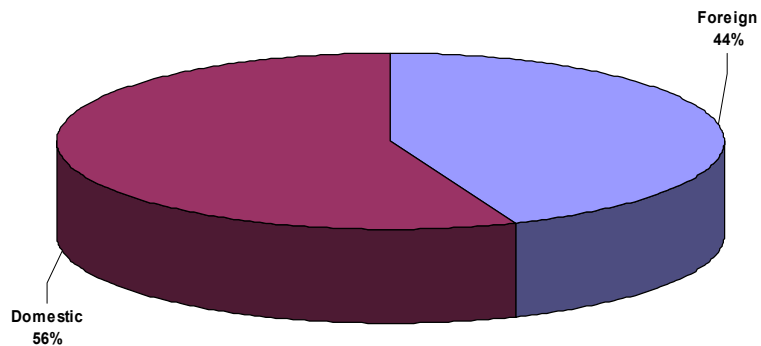
The issuer structure of covered mortgage bonds
(in billion HUF)



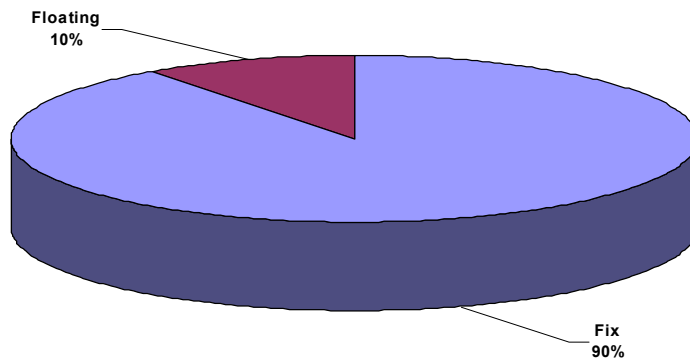
*according to outstanding mortgage bonds

Features of FHB CMBs 2000-2005

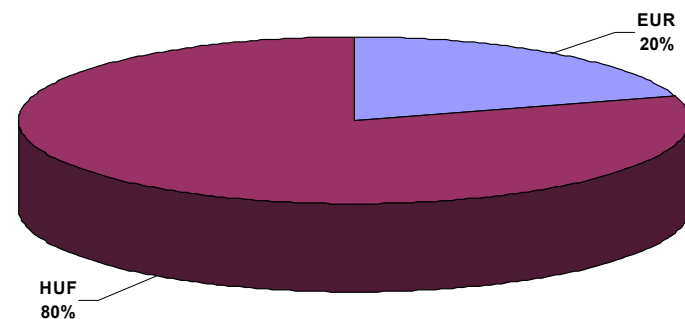
Covered mortgage bonds new issues to Q2 2005 according to the place of issue



Covered mortgage bonds new issues to Q2 2005 by interest type



Covered mortgage bonds new issues to Q2 2005 by currency



- *Growing role of foreign EUR issuances but majority of outstanding CMB volume were domestic issues and HUF denomination*

1. **Cut in subsidy scheme and growing FX lending decreased the incentive of CMB funding for non mortgage bank lenders**
 - **Maturity preferences, low spreads on rated CMBs, access to foreign investors**
2. **Decreasing margins in mortgage lending require even more efficient low price funding**
 - **Revealing new domestic (HUF) and foreign investor base (see. CRD preference of CMB)**
 - **New Moody's methodology may result notching-up**
3. **Volume, economy of scale, market turnover**
 - **Further significant decrease in spreads implies bigger issues**
 - **ECB eligibility**
4. **MBS**
 - **Change in legal background is needed, no high pressure explored from issuer side**