9th Central European Covered Bond Conference
Budapest, 17 / 18 October 2005

Tuesday 18th of October

10.00 – 11.30

Second Panel: **Covered bonds v. MBS and deposits - Which and under what circumstances are those instruments the most suitable for mortgage funding?**

Moderator: dr Agnieszka Drewicz-Tułodziecka, President of the Mortgage Credit Foundation

1. The main assumption:

There is no an ideal situation, in which the price of a covered bond is so attractive that this debt instrument is beyond competition. Therefore, the development of covered bond system depends on different conditions.

2. The proposed outline of the panel discussion:

- To compare the conditions, which stimulate covered bonds development on different markets (i.e. legislation, tax policy etc). The quality of the legislation environment is not always the prerequisite condition of high development of covered bonds.
- To present the economic reasons of funding the mortgage loans via capital market taking into account the cost of different sources

The Ist part of the panel discussion: general remarks

presentation by moderator of panel
duration 20 minutes

3. **The requested information** (in order to prepare the presentation)

*To compare different mortgage funding methods the following **information set** would be required (period from **1995 to 2004** would be the most required, if possible, all data preferable in euro):*

3.1. The **share of mortgages in the assets structure** of your bank and whole national banking sector (in volumes)
3.2. The **liabilities structure** of your bank and whole national banking sector, in volumes)
3.3. The **deposits curve** (in volumes, of your bank and whole national banking sector)
3.4. The **term structure of deposits** (in volumes and in percentages, of your bank and whole national banking sector)
3.5. The **specialized funding methods** (**volumes, maturities, interest rates, rating)**
3.5.1. Covered bonds

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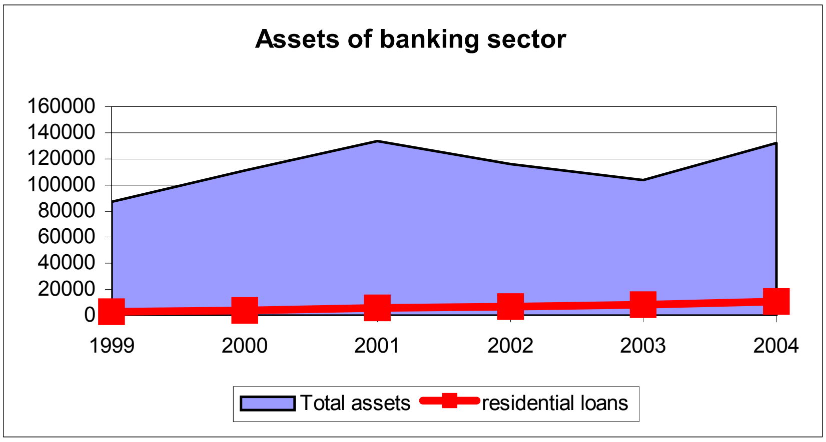
3.5.2. MBS

3.6. The **historical moments for covered bonds and MBS booms** and the reasons of them e.g.:

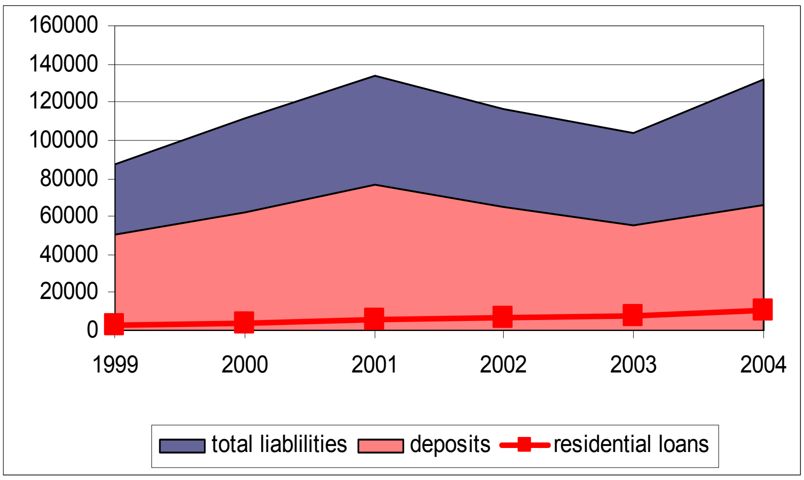
- Legislation background (e.g. covered bond act, MBS act)
- Tax support (e.g. regarding covered bonds and/or mortgage loans)
- Guarantees (e.g. to ensure the liquidity, payments on time for covered bonds investors)
- Banking supervisory regulations/incentives (e.g. A/L maturity matching requirement; to avoid the situation of funding of long-term assets by short-term liabilities). *Additional question: What are the banks' internal regulations regarding limits of A/L mismatching?*
- Other

Example of the presentation – case of Poland.

With reference to point 3.1. – ***The share of mortgages in the assets' structure of banking sector.***



With reference to point 3.2. and 3.3. – ***The liabilities curve of banking sector and deposit curve.***



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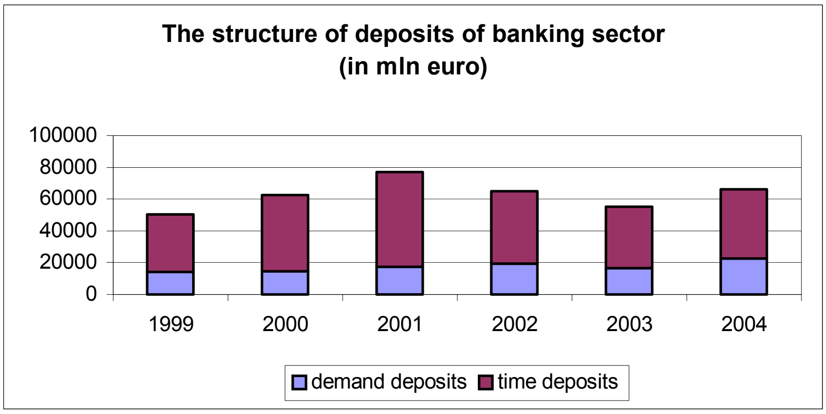
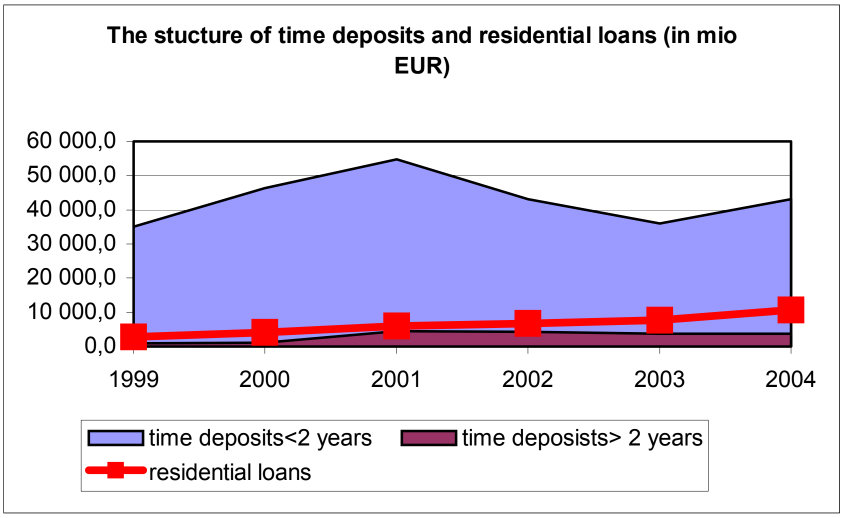
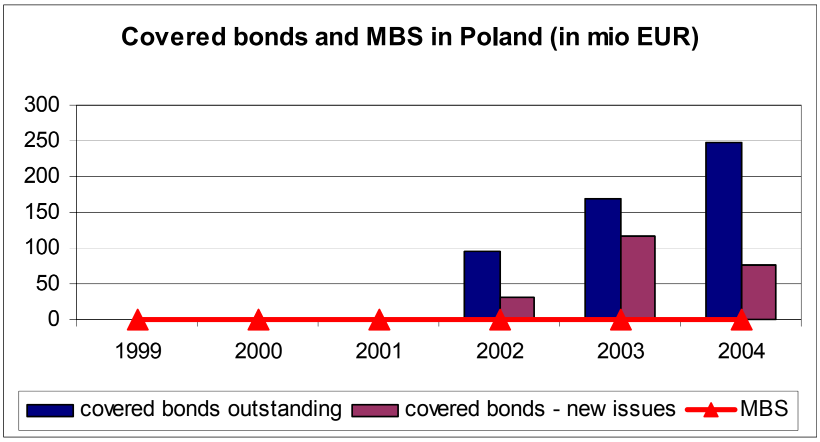
With reference to point 3.1. – *The structure of deposits of banking sector.*





With reference to point 3.5. – *The specialized funding methods.*



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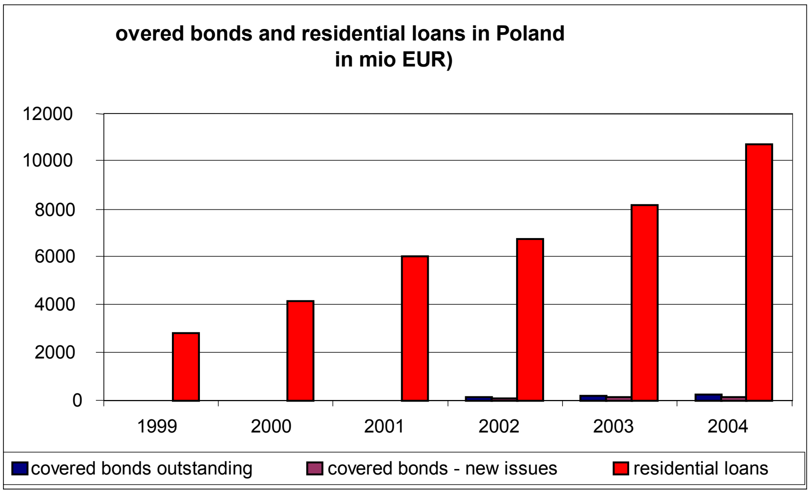
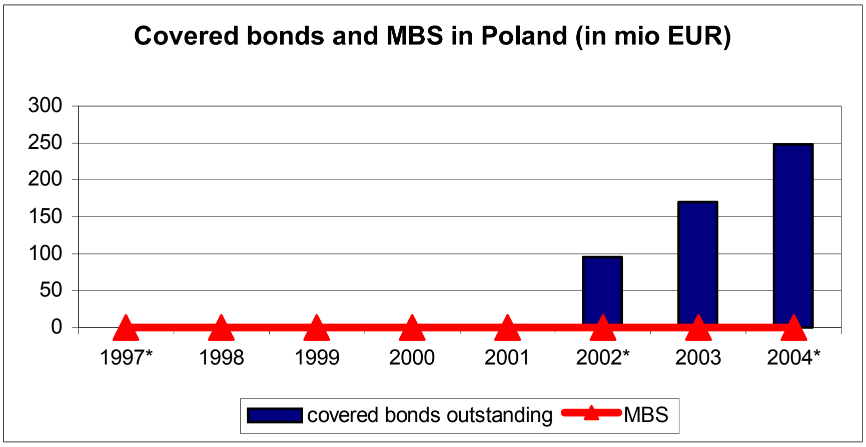


With reference to point 3.6. – *The historical moments for covered bonds and MBS booms.*



***1998 –** resolution of Act on Covered Bonds and Mortgage Banks
***2002** – amendment of the above Act
***2004** – new regulations regarding the securitisation

There is:

- no tax support,
- no guarantess,
- no supervisory regulation to avoid the mismatching of mortgage depository funding.

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The IInd part of the panel discussion: case studies

Panellists' Discussion
duration: 1 hour

The proposed subjects to be discussed during the panel (background for questions)

3.7. **The questions to all panellists**: Are covered bonds more attractive for investors than other mortgage bonds?

3.7.1. What are the main advantages of covered bonds? (e.g. better risk weighting, tax release, higher investment limits)
3.7.2. What does a local investor see as a disadvantage of covered bonds?

3.8. **To question preferable to Hungarian representative:** What are the opportunities and requirements of entering foreign investors' markets? (What is the difference in terms of cost of sources?)

3.9. **The question preferable to UK representative:** What are the costs of covered bonds / MBS issues (as a percentage of the issue)?

3.9.1. Administrative costs (e.g. audit, issue prospectus, legal advisory, publication, stock exchange and security commission)
3.9.2. Rating and promotion
3.9.3. Hedging instruments
3.9.4. The level of over-collaterization
3.9.5. Other

3.10. **The question preferable to Polish representative:** What is the role of rating for covered bonds development (at local and foreign markets)

3.10.1. What are three crucial points highlighted by rating agency?
3.10.2. Is the covered bonds rating higher than an issuer rating? (if yes, is a liquidity guarantee of a mother bank required?)

3.11. **The question preferable to Portuguese representative:** Is there a synergy effect of using different methods of funding in the situation of fast growing mortgage portfolio (the possible example of a universal bank, which can use deposits, bank bonds as well as securitization)

3.12. **Final question to all panellists:** How funding techniques are likely to evolve within the coming years?

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