

# **MORTGAGE FINANCE IN SLOVENIA**

## **forthcoming covered bond legislation**



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Berlin, October 2003



# CONTENTS

- **Where Slovenia currently is ?**
  - Situation and problems
- **Covered bond legislation**
  - Goals
  - Dilemmas
  - Draft law

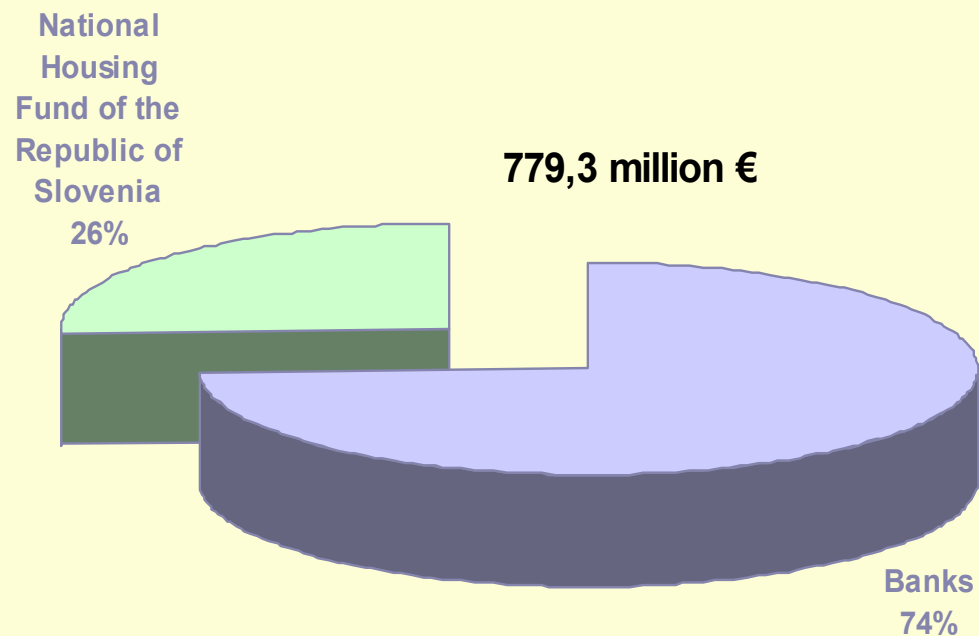


## Mortgage Finance - Lending Side

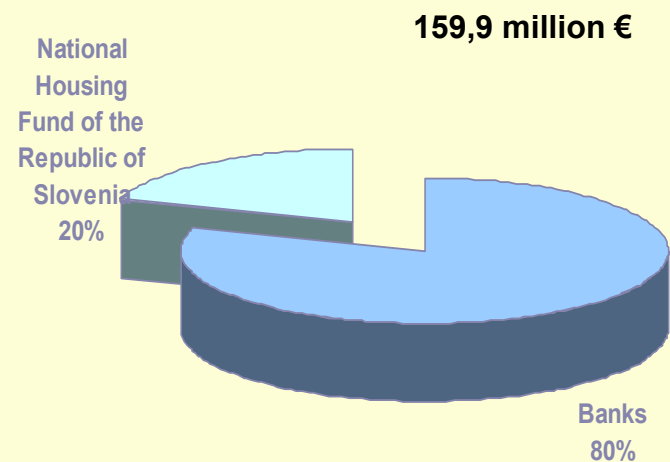
- Mortgage as collateral is widely used in **corporate finance**
- Weak role of mortgage finance in **housing finance** and other non-corporate lending

# Housing Loans - Size of the Market

Total outstanding loans at 31.12. 2002



Loans in 2002

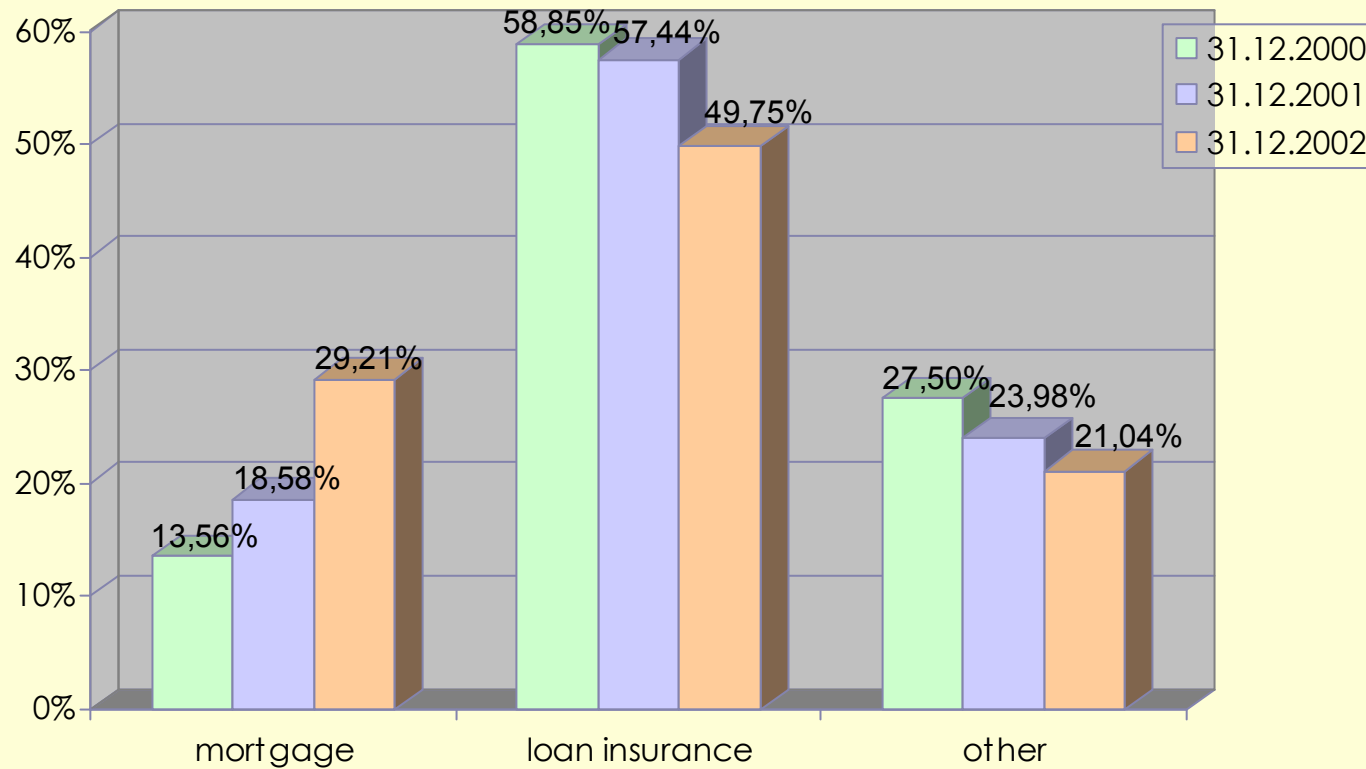


Source: Surveys of MoF

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# Housing Loans by Collateral

## total outstanding - end of the year

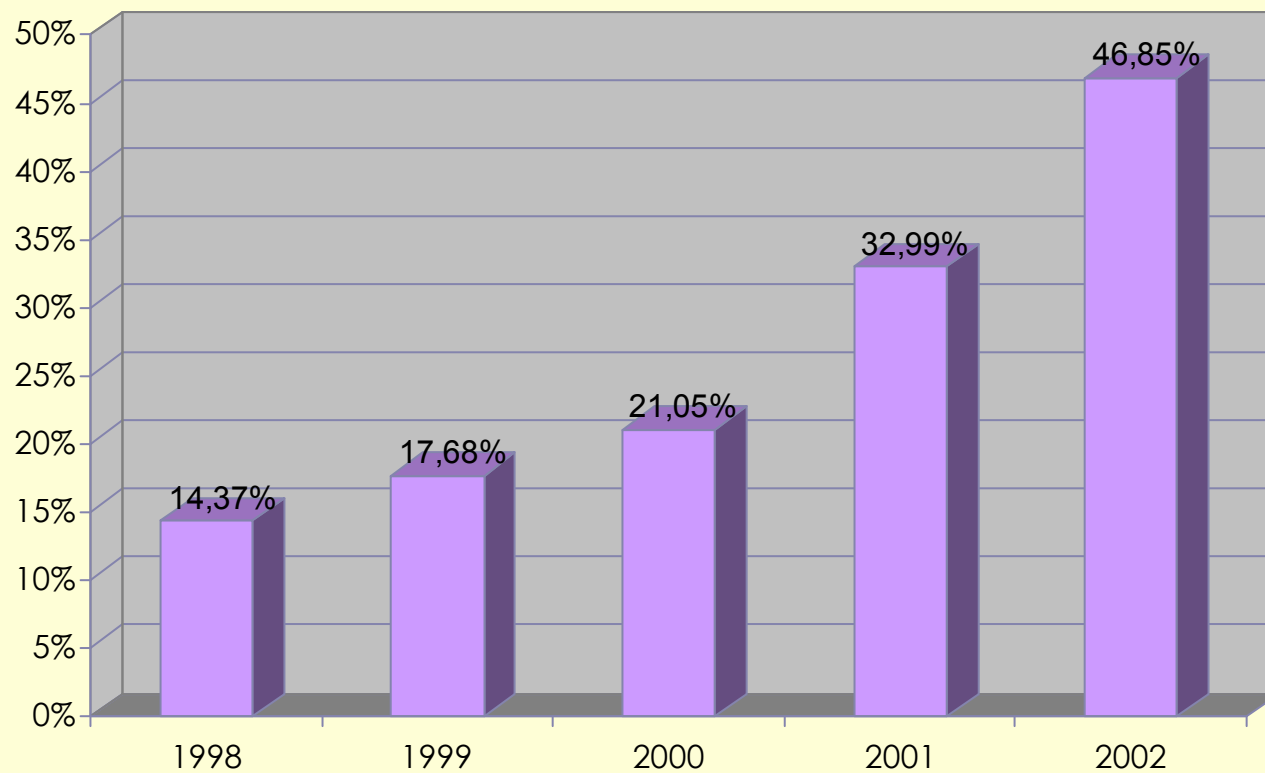


Source: Surveys of MoF

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# Mortgage Banking Loans

share in banking housing loans in the current year



Source: Surveys of MOF

Berlin, October 2003



# Why are Mortgage Loans so Low ?

## ● Land register

- Lengthy procedures to register real estate
- Integrity of the land register

## ● Still Bad Protection of Mortgage Lender

- Foreclosure procedures
- Eviction procedures



# Continued

- Evaluation of real estate  
(questionable market value)
- Favourable loan insurance with  
insurance companies
- Customers point of view





# Typical Mortgage Loan Product

## Maturity

- 54% up to 10 years
- 40% 10 to 15 years
- 5% 15 to 20 years

## Loan to Value

- 3 banks up to 60%
- 12 banks up to 50%
- 3 banks up to 40%
- 4 banks up to 33%
- Varies depending on location, customer,  
...



# Continued

## Interest rates

- fixed or negotiable after two (five) years
- inflation linked
- recently banks also offer EURIBOR based loans


## Prepayed loans

- costs 1,5 - 3% of outstanding loan



# **Mortgage Finance – Funding Side**

- **Deposit financing of housing loans**
- **No secondary mortgage market**



# Development of the Secondary Mortgage Market

## ● Banks

- long term funding instruments
- transfer of liquidity and interest rate risk to capital market

## ● Institutional investors

- long term high credit quality instrument


## ● Bank customers

- better housing loans




# Choice of the Instruments (MB:MBS)

- Not exclusive choice
- Advantages of MB for Slovenia
  - Simpler legal and tax infrastructure
  - Less costly
  - Banks - capital pressure is not the main concern
  - Investors
    - credit quality
    - cash flow performance & liquidity
  - EU environment



# Specialization of the Issuers ?

- Mortgage bond or  
Mortgage bank act ?
- Still an open issue



# Banks are lobbying for universal banking model

- **Simple solution**
  - Integration of mortgage banking into existing structure
  - No need for new credit institutions
  - No initial investment, no additional staff
- **Disadvantages of the specialized bank in the small country**
  - Economy of scale
  - Burden of initial capital
- **Centralized (joint) issuing entity**



# Dilemmas

- **Universal bank ?**
  - **Small issuances with low liquidity**
  - **Value added for customers ?**
- **Centralized issuing entity ?**
  - **Ideal solution from the point of view of market size constraints - Homogeneity of the issuances and liquidity**
  - **Problems with transfer of mortgage loans (legal, costs, standardization of the products)**
  - **Interest of banks: cooperation or competition?**





# Mortgage Bond

- Name protection
- Bonds in circulation have at least nominal value coverage under the items in Cover Register including the amount of interest
- In issuing Bonds the Bank shall take account of the maturity and interest accrual for loans under the Cover Register
- Total value of bonds in circulation is limited to 60 times the capital of the issuer
- Priority of bond holders in the event of bankruptcy of the issuer



# Cover Assets

- Mortgage loans
- Communal = public sector loans
- Cover register
  - Separate for mortgage and communal bonds
- Substitute cover – max 20%




## Eligible Mortgage Loans

- Loan secured by a mortgage or a land debt on residential and commercial real estate
- LTV: 60% of a mortgage lending value
- Mortgage loans secured by a right of lien on a real estate outside Slovenia
  - up to 50%
  - max. 10% former Yugoslavia
  - max 40% EU
- Loans approved by a trustee



# Trustee

- Independent of the bank and of the Bank of Slovenia
- The Cover Register is kept in compliance with the legislation
- Appointed by the Bank of Slovenia for a term of 4 years
- Qualification – certified auditor?



# Privileged Position of Mortgage Bond

- Privileged position in respect of investment rules
  - Insurance companies
  - Investment funds
- Preferential solvency ratios ?
- Tax exemptions ?