



## **Mortgage Bonds and Mortgage-Backed Securities – Competing or Complimentary Instruments?**

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**6<sup>th</sup> Central European Mortgage Bond Conference**

**Warsaw, Poland**

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**BARCLAYS**

## Agenda

1. Introduction
2. Major Differences between Mortgage Bonds and Mortgage-Backed Securities (MBS)
3. European Mortgage Bond Development
4. A y T Cédulas Cajas and CIF Euromortgage: Structured Mortgage Bonds
5. Conclusions

## What are ... ?

- Mortgage Bonds: Debt instruments backed by a pool of mortgages – usually on the balance sheet of the issuer.
- Mortgage-Backed Securities (MBS): debt instruments backed by a pool of mortgage instruments – usually removed from the balance sheet and placed in a special purpose vehicle (SPV).

## Major Differences between Mortgage Bonds and Mortgage-Backed Securities

### Mortgage Bonds:

- Remain on balance sheet
- Priority claim on proceeds in the event of insolvency: recourse to issuer
- Composition of assets can change / evolve over the life of the bond issue
- Ongoing monitoring by regulator of asset pool throughout the life of the bond
- Credit enhancements rare
- Strict market-making requirements (especially in Jumbo issues)
- Issues have a single credit rating from a specific rating agenc(ies)
- Uses capital of issuer
- 10% risk-weighted.

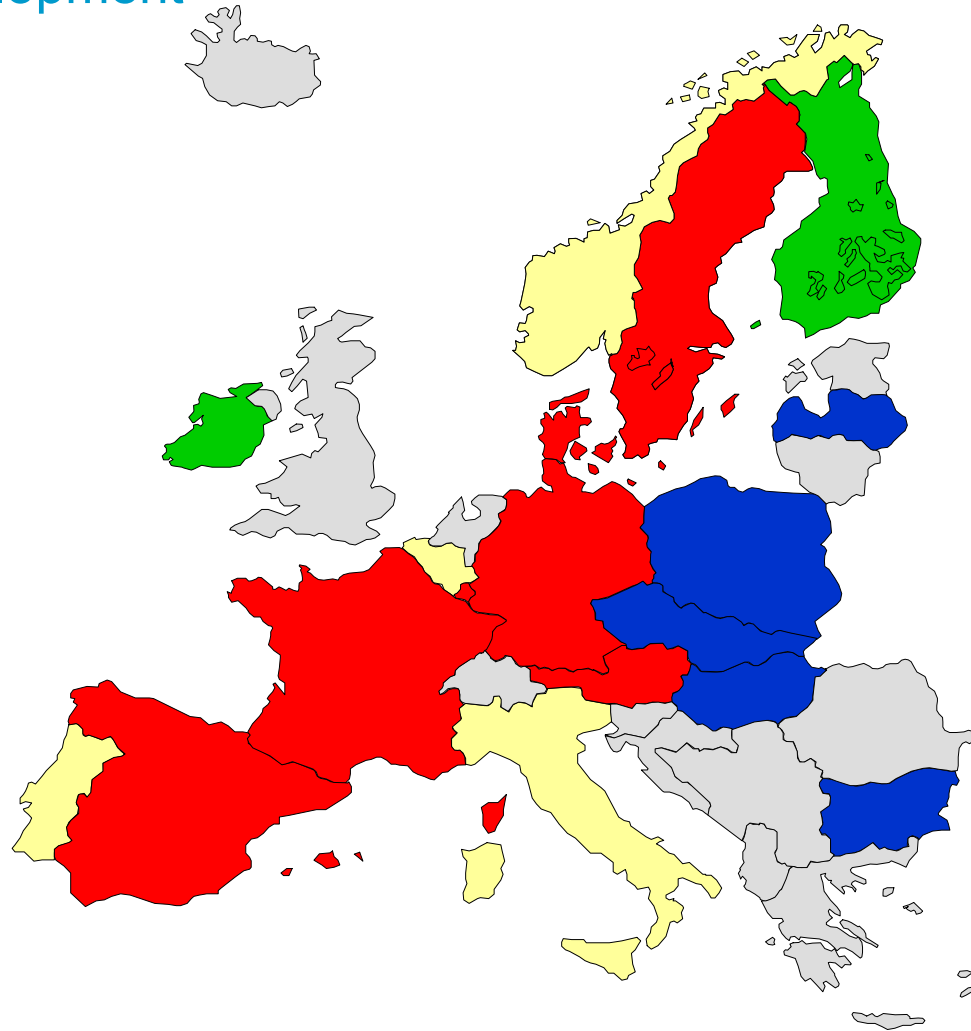
### Mortgage-Backed Securities:

- Assets separated in a special-purpose vehicle
- Claims usually limited to cover assets in the special-purpose vehicle
- Composition of assets is usually static compared to initial issue
- Formal regulatory monitoring varies among jurisdictions
- Credit enhancements common.
- No strict market-making agreements
- Credit enhancement usually provided by lower-rated tranches. AAA/AA/A/BBB tranches common within one issue.
- Relieves capital of issuer.
- and often is 100% risk-weighted.

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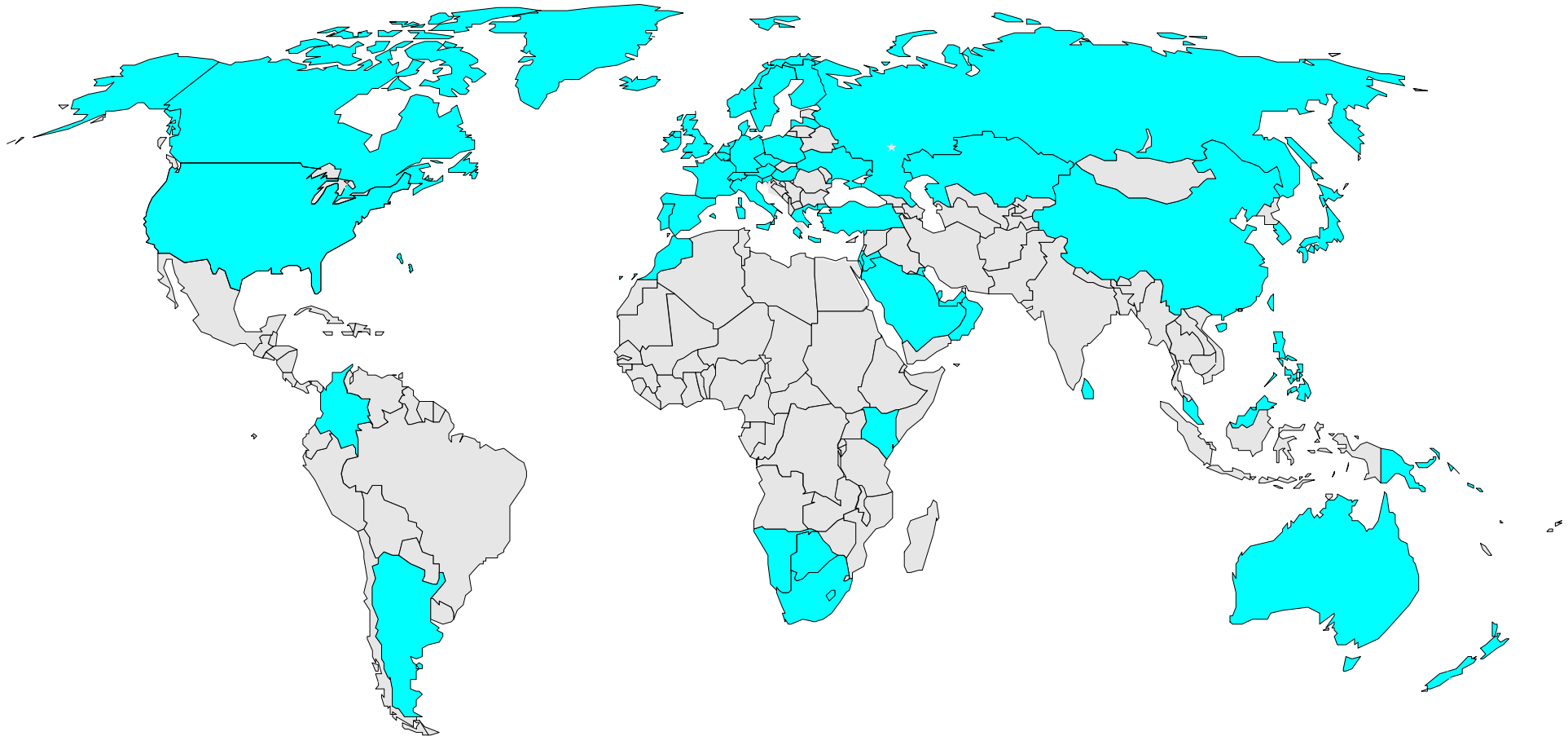
## European Mortgage Bond Development

- Countries with potentially new Mortgage Bond legislation in 2003.
- Countries with new Mortgage Bond legislation in 2001.
- Countries with Jumbo Mortgage Bond issues in the market.
- Countries developing mortgage bond markets.



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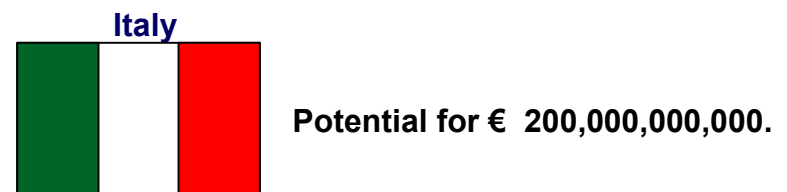
Countries with institutional investors in Mortgage Bonds and MBS



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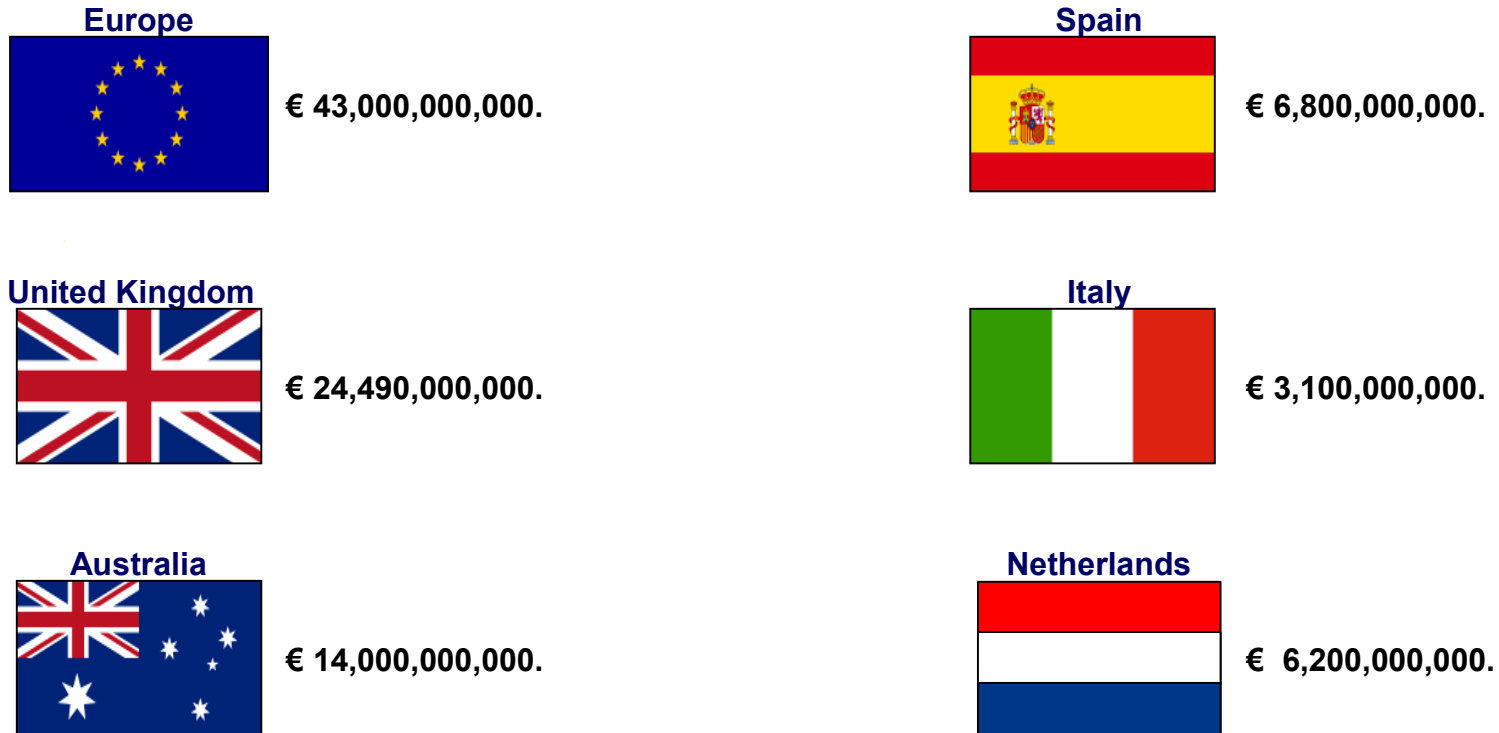
## Size of Market: Jumbo Covered Bond Issues and Mortgage Bond Issues Outstanding



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## New Issues: Mortgage-Backed Securities (Jan 2002 – YTD)



Roughly 14 % growth over 2001, largest RMBS was £ 4,000,000,000 Holmes 6 (Abbey National) benchmark.

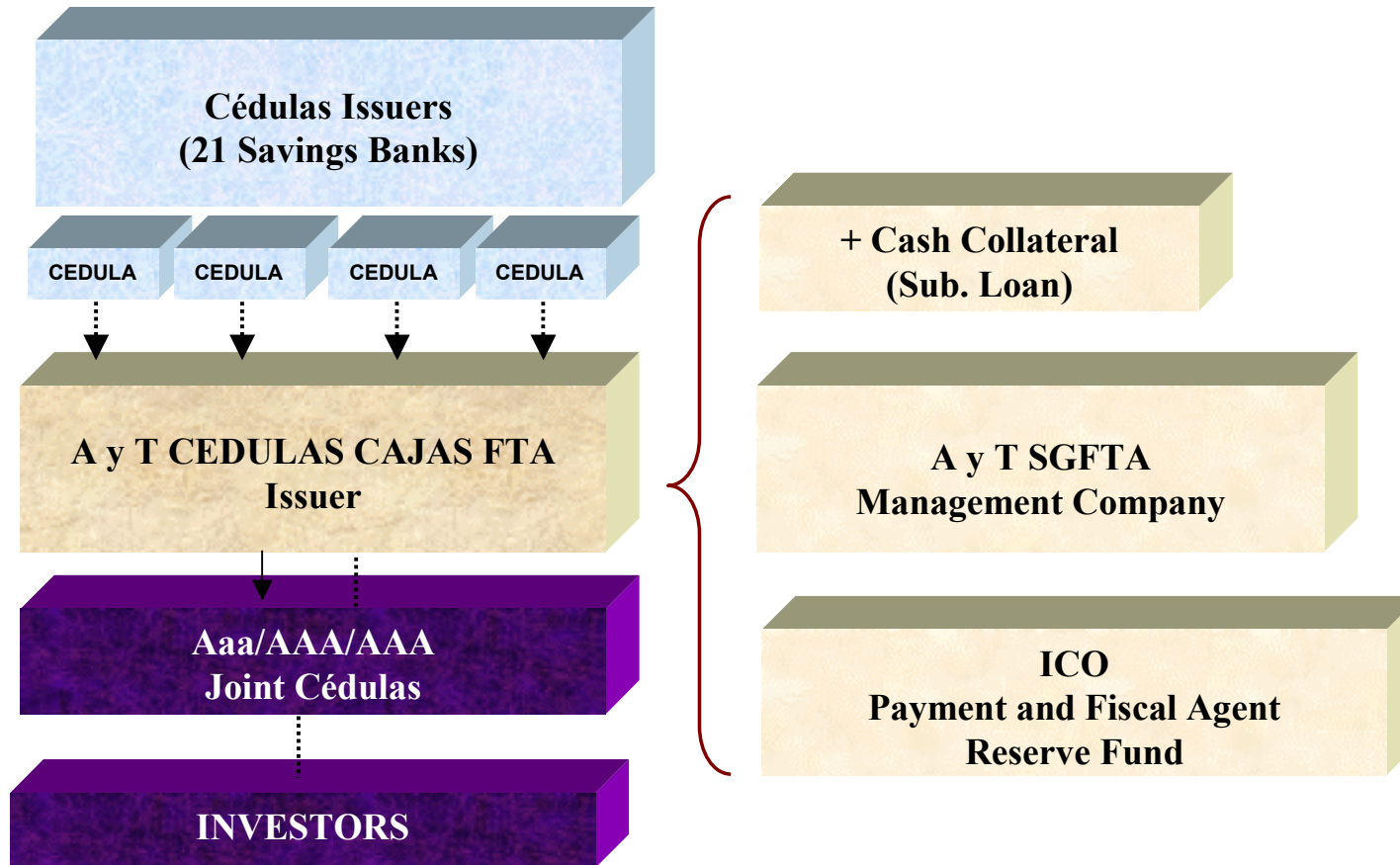


## What about the United States?

- Mortgage Bonds: The US Agencies such as Fannie Mae and Freddie Mac do not correspond to European mortgage bonds in either credit structure or risk.
- Mortgage-Backed Securities (MBS): Tend to have equity overcollateralisation to enhance credit risk (versus cash collateralisation in Europe) and the prices in the US real estate markets tend to be more volatile.

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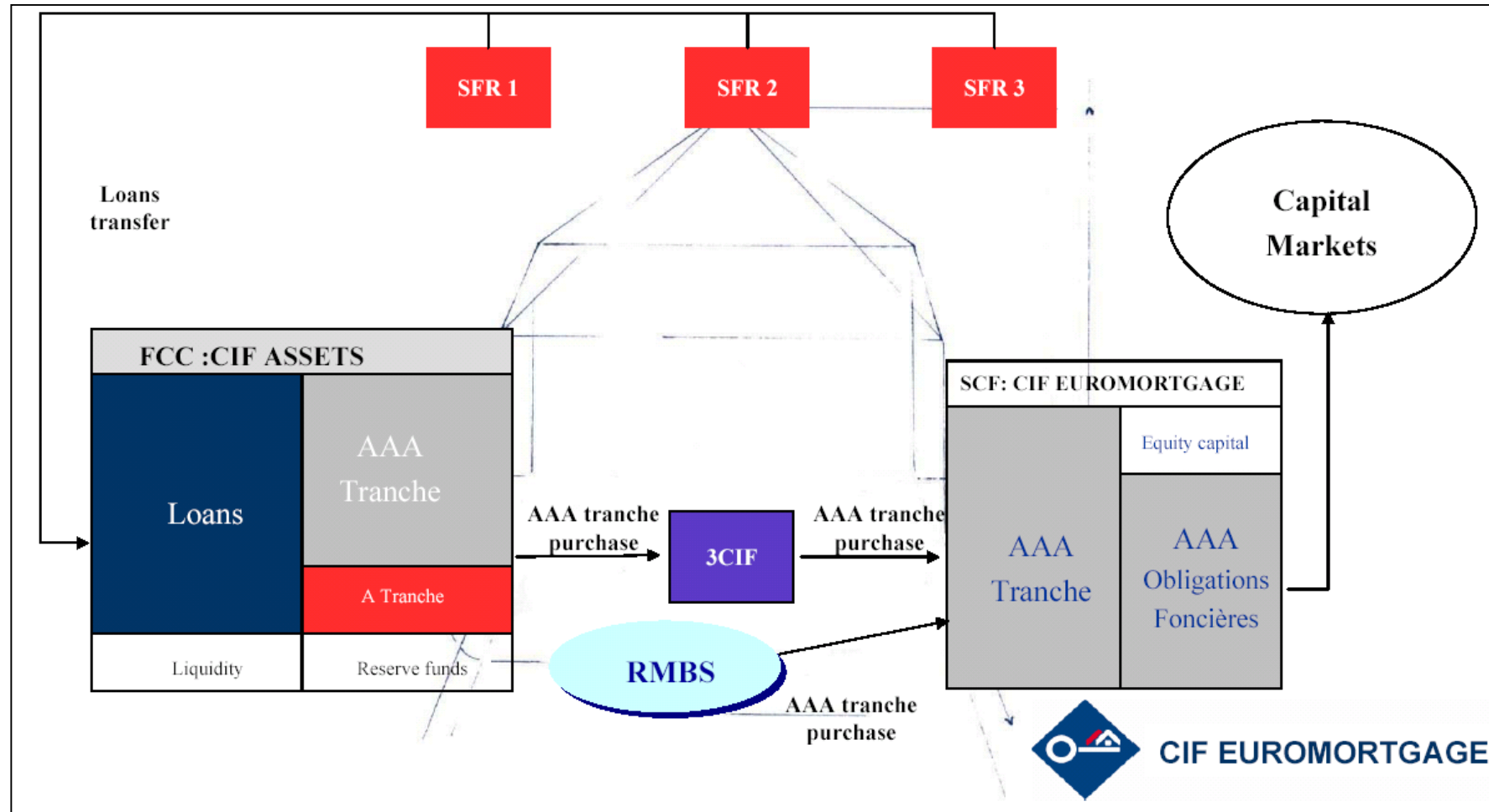
## A y T Cédulas Cajas: Structured Mortgage Bonds



A y T Cédulas Cajas, Fondo de Titulización de Activos, has been specifically constituted according to Spanish laws with limited liability. Its sole purpose is the acquisition of 21 cédulas hipotecarias (CHs or covered bonds) as collateral for the issuance of the joint cédulas.

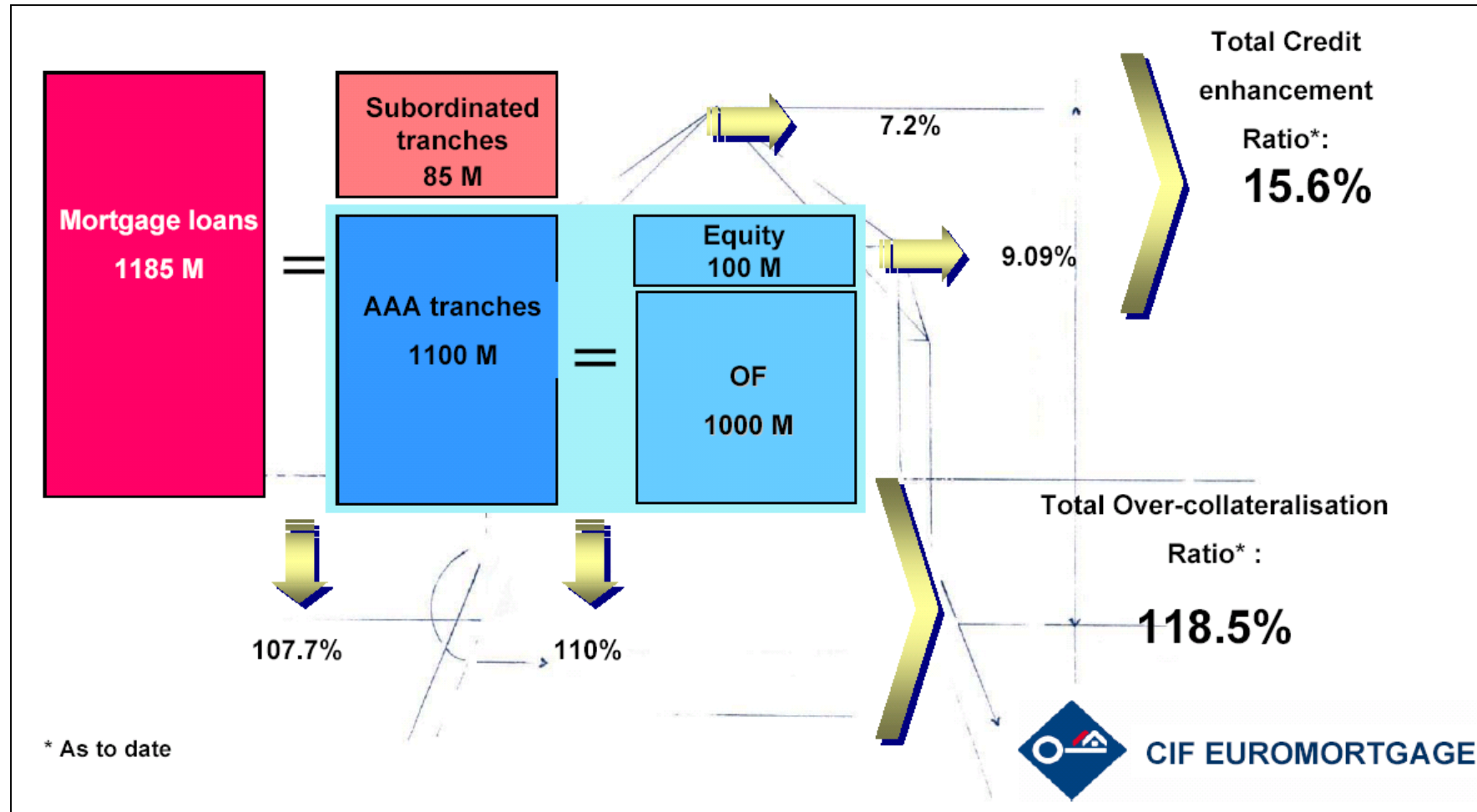
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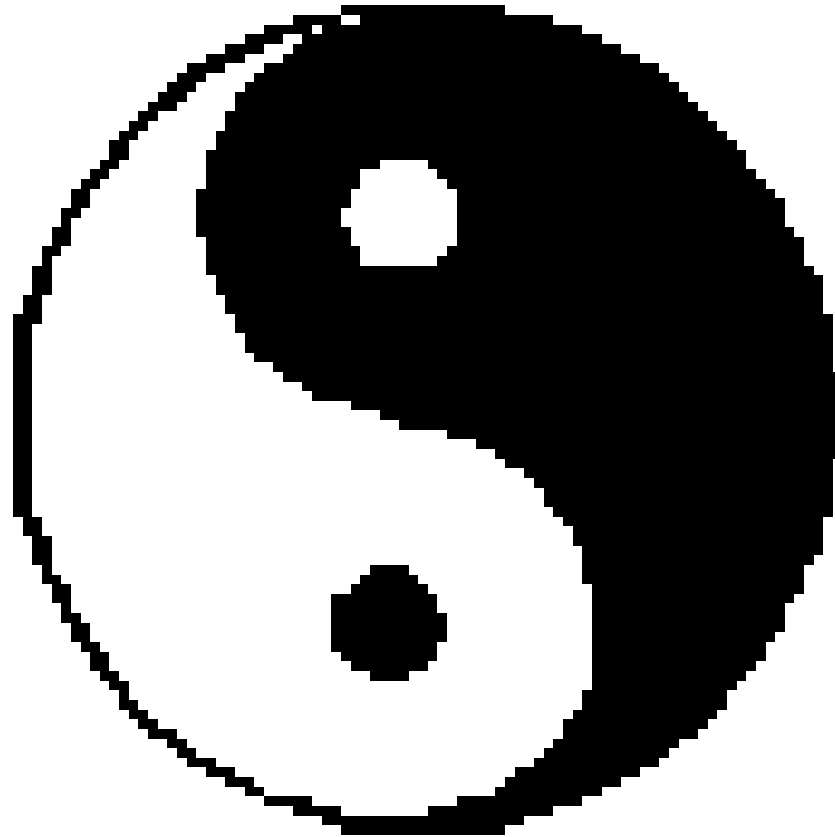
## CIF Euromortgage: Structured Mortgage Bonds



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## CIF Euromortgage: Structured Mortgage Bonds





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No.	Financial institution (Bloomberg ticker)	Long-term ratings	Credit default swap levels (mid)	Equity mkt cap (€ bn)
1	Barclays Plc (BARC.LN)	Aa1/AA	+27	45
1=	UBS* (UBSN.VX)	Aa2/AA+	+27	49
3	HSBC (HSBA.LN)	Aa2/AA-	+32	105
4	Bank of America (BAC.US)	Aa2/A+	+40	87
5	BNP Paribas (BNP.FP)	Aa2/AA-	+43	30
6	Citigroup (C.US)	Aa1/AA-	+45	150
7	ABN Amro (AABA.NA)	Aa3/AA-	+53	21
8	Deutsche Bank* (DBK.GR)	Aa3 /AA-	+68	27
9	JP Morgan Chase* (JPM.US)	A1 /A+	+75	34
10	Dresdner Bank* (ALV.GR)	Aa3 /A+	+95	NA
11	Goldman Sachs* (GS.US)	Aa3 /A+	+100	31
11=	Morgan Stanley* (MWD.US)	Aa3 / AA-	+100	36
13	Lehman Brothers* (LEH.US)	A2/A	+105	11
14	Merrill Lynch* (MER.US)	Aa3 /AA-	+115	27
15	CS Group* (CSGN.VX)	Aa3/A+	+175	19

\*Negative outlook

Source: Barclays Capital 14 October 2002

## Conclusions

- Dramatic credit changes on the European banking front are creating strong institutional investor demand for both mortgage bonds and MBS.
- The differences between mortgage bonds and MBS are blurring.
- Strong growth in one market is leading to strong growth in another market.

## What is the best starting point?

- Pfandbrief/mortgage bond legislation is key towards establishing large, institutional investor interest from around the world in a developing region. This has been the experience of Germany, Austria, France, Spain, Ireland, Luxembourg, Denmark, Sweden, and Finland so far. A strong mortgage bond legislation is a key ingredient for encouraging capital flows into the fixed income markets of developing financial markets.
- A basic mortgage bond law is necessary and can be flexible to design securities for evolving issue and investor tastes. It is the necessary foundation upon which to build deep, liquid markets.



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All jumbo covered bonds bookrunners: 1/ 1/ 2002 to date

	Managing bank or group	No of issues	Total E (m)	Share (%)
1	Hypo Vereinsbank	31	8,050.20	12.1
<b>2</b>	<b>Barclays Capital</b>	<b>29</b>	<b>7,021.80</b>	<b>10.6</b>
3	Deutsche Bank	30	6,620.00	10.0
4	DrKW	37	6,480.20	9.8
5	Citigroup/SSB	19	5,324.70	8.0
6	Commerzbank	28	5,101.00	7.7
7	CDC ICM	23	4,759.60	7.2
8	ABN AMRO	21	3,206.90	4.8
9	Credit Agricole Indosuez	12	3,013.40	4.5
10	Goldman Sachs	7	2,905.10	4.4
	<b>Total</b>	<b>69</b>	<b>66,479.60</b>	

Includes all fixed-rate covered bonds at or over eqv E500m with at least three market-makers.

Source: Thomson Financial

SDC code: N2

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## International RMBS Bookrunners 2002 YTD

2001	2002 YTD	Bookrunner	Adj. US\$ (m)	% of Total	No. of issues
4	1	Barclays Capital	6,968.57	14.42	9
9	2	JPMorgan	6,027.79	12.47	4
2	3	Citigroup/ SSB	4,859.84	10.06	7
6	4	Deutsche Bank AG	4,833.65	10.00	7
3	5	ABN AMRO	3,783.58	7.83	6
5	6	Merrill Lynch & Co	2,163.88	4.48	2
11	7	Lehman Brothers	2,154.79	4.46	3
23	8	Fortis Bank	2,020.29	4.18	2
19	9	Bear Stearns & Co	1,206.46	2.50	4
1	10	CSFB	922.82	1.91	2
<b>Industry Total</b>			<b>48,324.16</b>	<b>100</b>	

Source Dealogic (Bondware)