

DEPOSITS

or

BONDS

**Some remarks of the
Czech Mortgage Loans
Refinancing policy**

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To be or not to be

HOW TO FUND THE MORTGAGE LOAN?

in emerging market

A case study of Czech Republic

**What refinancing resources has
Czech emerging financial market
for its disposal?**

- a) funds of the money market - good developed
- b) funds of the capital market – slightly developed

RELATION BETWEEN TWO MAIN FORMS OF PRIMARY FUNDING RESSOURCES

Czech present situation

billions CZK as at 30. July 2001

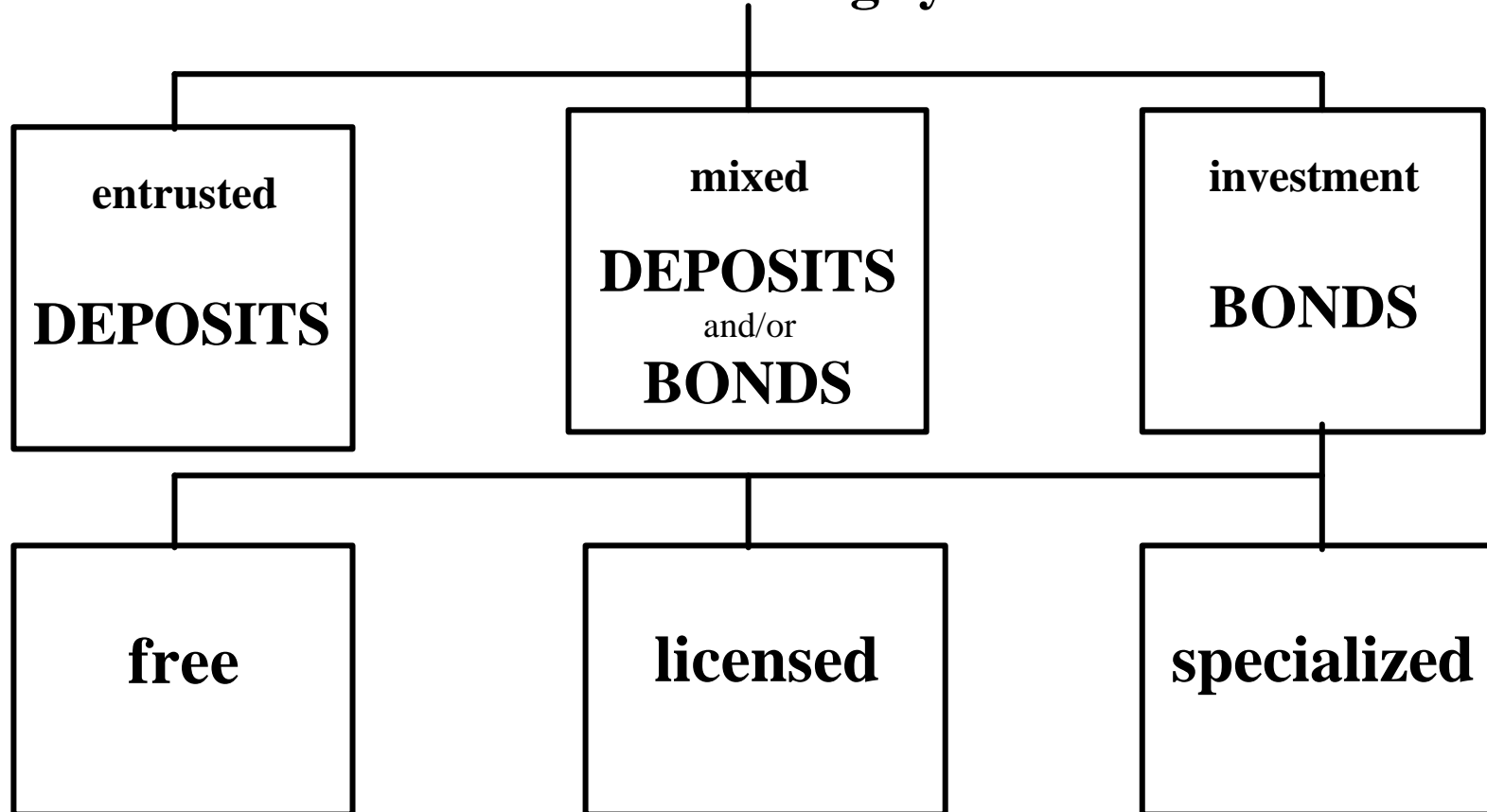
Financial Market	court term (money market)	medium term (capital market)	and long term (capital market)	Total
primary deposits	787	534	70	1391
bonds	33	1	88	122
total	820	535	158	1513

**What prefer
for the start of
the long term real estate
financing?**

Theoretical solutions

**TWO FORMS OF RESSOURCES
THREE POSSIBILITIES OF REFUNDING**

Three refinancing systems



Czech Choice:

MIXED REFINANCING SYSTEM

Main Traces:

- 1. Every Czech universal bank can originates the mortgage loans**
- 2. Only the bank with the special licence can issue mortgage bonds**

Results

Czech Mortgage Bank

=

Universal Bank

with

special mortgage licence

CONSEQUENCE

**Every Czech Mortgage bank
can fund its mortgage loans**

both through

its proper deposits

and through

its proper mortgage bonds issues

Is the mortgage loan refunding through other funds then mortgage bonds so unusual?

What is the situation in

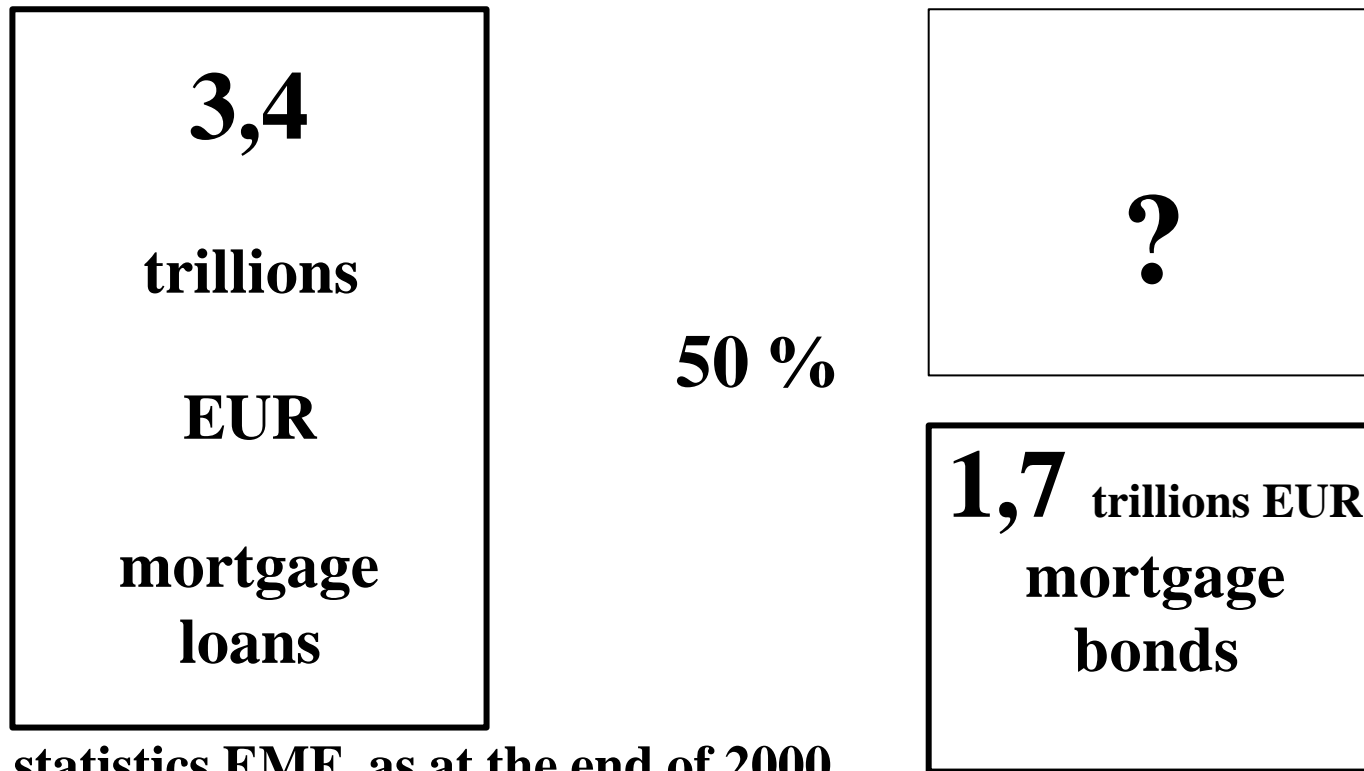
European Union,

Central and Eastern European Countries

Czech republic

European Union

as at the end of 2000



Source: statistics EMF, as at the end of 2000

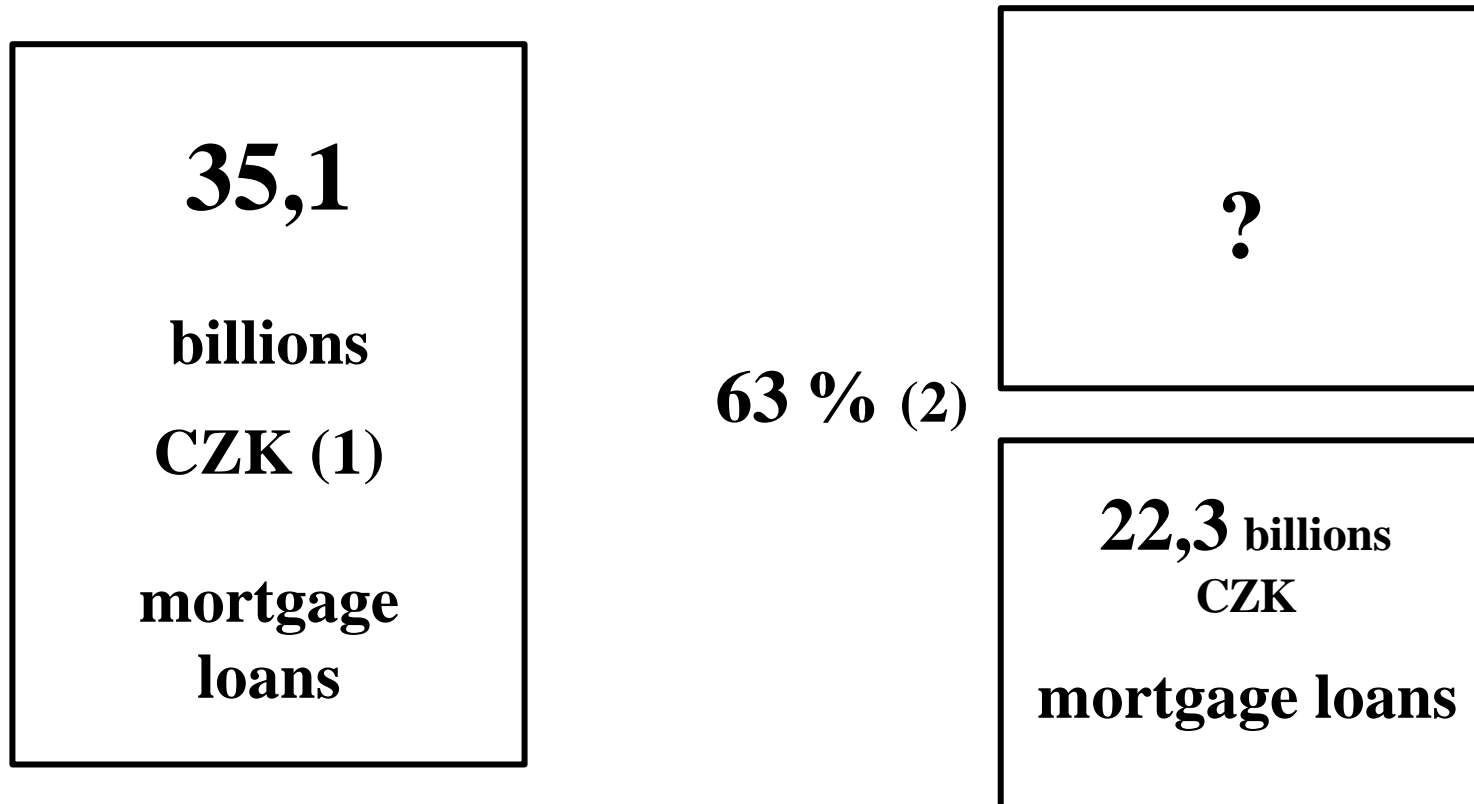
CEE Countries

as at the end of 2000, mill. EUR

country	volume of mortgages outstanding	volume of MBS issues	used system
SK	34,1	12,92	mixed
HU	35,1 (1)	23,17	special
PL	15,4	4,92	special
LT	54,4	10,5	special

(1) Estimation

CZECH MORTGAGE MARKET 2000



(1) Only Mortgage loans used as an ordinary cover

(2) As at 31 July 2001 this relation is 56 %

CZECH PRACTISE OF MIXED REFINANCING

Bank	Date of Licence	Mortgage loans (1)	Mortgage bonds	% refinancing
BACA	X / 96	1,7	1,5	88,2
CMHB	IX / 95	12,3	11,8	95,9
CS	XI / 95	5,1	0,5	9,8
CSOB	VIII / 97	0,5	0,0	0,0
GE	XII / 99	0,1	0,0	0,0
HypVer	IX / 95	8,3	1,9	22,9
KB	XI / 95	7,0	6,6	94,3
RFB	VII / 99	0,1	0,0	0,0
ZIBA	X / 99	0,0	0,0	0
Total		35,1	22,3	63,5

(1) As at k 31.12.2000, estimation

CZECH PRACTICE OF THE MIXED REFINANCING (II)

WHY ANY CZECH MORTGAGE BANKS DO NOT USE THE FUNDS FROM MORTGAGE BONDS ISSUES?

**SMALL
VOLUME**

1 issue 1,1 bill. CZK in average

4,0 bill largest - 0,1 bill. smallest

small interest of investors

small liquidity

**HIGH
COSTS**

charges of single issues

public information's obligations

system of the control

higher price of the resources

CZECH PRACTICE OF THE MIXED REFINANCING (III)

WHY ANY CZECH MORTGAGE BANKS DO NOT USE THE FUNDS FROM MORTGAGE BONDS ISSUES?

**ABUNDANCE
OF
LIQUIDITY**

**ABUNDANCE
OF
DEPOSITS**

- 1) On the time being is very difficult to find a sure and profitable allocation of deposits resources**
- 2) The part of mortgage loans on the all volume of portfolio is so slight, that the banks as CS or KB are not under the pressure of the liquidity or interest rate risk.**

CZECH PRACTICE OF THE MIXED REFINANCING (III)

WHY OTHER CZECH MORTGAGE BANKS DO NOT USE THE FUNDS FROM MORTGAGE BONDS ISSUES?

- 1. Stability of refunding resources**
- 2. Diminution of interest rate risk**
- 3. Shareholders (namely foreigner) demand it**
- 4. The bank is (voluntary) specialised on mortgage loans origination**

Are Czech Mortgage Banks against mortgage bonds refinancing?

Generally no

- **See the relation between the volume of mortgage bonds and volume of mortgage loans in the cover bloc**
- **On 1997/1998 the mortgage banks had realised a common publicity on the favour of mortgage bonds**

How we can appreciate
the future
of the Czech Mortgage Bonds Market?

IT IS POSSIBLE TO SEE TWO TENDENCIES

1. Long term tendency: **acceleration**
2. Medium term tendency: **stagnation**

Why acceleration?

1. Yearly addition of the mortgage loans increases mill. CZK

year	interest rate	volume new loans
1996	11,4 %	7938
1997	12,9 %	9247
1998	13,6 %	10987
1999	10,2 %	10922
2000	8,79 %	18180
2001 (VI)	8,02 %	9254
<i>2001</i>	<i>7,95 %</i>	<i>21000</i>

Why acceleration? (II)

2. Old issue matures finishes. It will be necessary to renew them.

year	2001	2002	2003	2004	2005
volume (1)	1800	1100	2200	13500	6600

(1) Mortgage bonds to repay, mill. CZK

3. Creation of the second (voluntary) specialised mortgage bank is on the way

Why medium term stagnation?

Consequence of the negative side of mixed refinancing system.

- 1. Beginning June 2001 Czech Saving Bank, after privatisation, uses its abundance of deposits and through the non market diminution of the interest rate, has intention to acquire the major share on mortgage loan market. CS gives one half of the granted loan under the commercial interest rate, second half under the commercial rate reduced of 1,5 basic point. Its why for example Komerční banka, the second major issuer of Mortgage bonds, speculates about he interruption of next issues.**

Why medium term stagnation?

Consequence of the negative side of mixed refinancing system.

2. At 30. September 2001 Bank Austria Creditanstalt (BACA) and Hypovereinsbank (HVB) have merged on HVB Czech Republic. BACA has realised long term program of mortgage bond issues, HVB interrupted its program on 1998. We do not until what will be the new HVB Czech Republic behaviour regarding to the mortgage bonds issues.

Final solution?

Deposits or Mortgage bonds?

Nest future will demonstrate the solution.

**In every case we can believe on the future of the Czech
Mortgage Bonds**

and that

**the Czech Mortgage Bonds
are and will be
a god occasion for investors and investment.**