

Hungary:
Start-up Mortgage Banking-
Covered Mortgage Bond Issuance
Presentation
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FHB Land and Mortgage Bank, Securities

Securitisation in Mortgage Business (1)

- Challenge: how to provide for liquidity
- 2 models: US: decentralised pooling - needs support mechanism for liquidity (Fannie Mae)
German: specialised banking and Pfandbrief (covered mortgage bond)
- 2 phases:
 - 1st phase: direct long-term financial intermediation (long-term savers-long term projects), limited growth potential

Securitisation in Mortgage Business (2)

- 2nd phase: liquidity creation (continuous exit opportunity -substantial widening and diversification of investor base); booster for growth potential (mortgage loans abt. 40-50% of GDP - Hungary: abt. 3%)

Mortgage Banking Business in Hungary

- Challenge: how to develop mortgage banking from scratch in a highly overbanked and fiercely competitive financial and banking environment (over 40 banks in USD 40bn GDP)
- 3 mortgage banks
 - FHB (1998) 27 bn HUF mortgage loan; 22bn HUF (90 Mn Euro) Covered Mortgage Bond (CMB)
 - HVB (1999) 6 bn HUF mortgage loan; 2 bn HUF (8 Mn Euro) Covered Mortgage Bond (CMB)
 - OTP (2001) launch of full operation in 2002

FHB Land Credit and Mortgage Bank - New Lending Strategy - 2000 (1)

- Focus on residential mortgage lending supported by government subsidies for CMB funded residential loans (3%-4,5%-6% annual interest rate subsidy) - breakthrough
- Newly structured mortgage loans (two main types):
 - annually variable interest rate loans with 5-35 years maturity (45% of portfolio)
 - 5 year interest period loans with 5-35 years maturity (55% of portfolio)

Trend: preference for 5 year rates, partly due to inverse yield curve up to 10 years in Hungary

FHB Land Credit and Mortgage Bank - New Lending Strategy - 2000 (2)

- New, multilevel distribution (loan placement) strategy:
 - own network: representative offices (7), limited potential
 - agency network: building societies, insurance companies, realtors
 - consortial partners: saving banks, commercial banks
 - refinancing partners: commercial banks, insurance companies (new form likely to give another boost for major growth)

FHB Land Credit and Mortgage Bank - New Lending Strategy - 2000 (3)

- In figures (year-end portfolio):

1998 3 bn HUF (13 mn Euro)

1999 5 bn HUF (17 mn Euro)

2000 15 bn HUF (52 mn Euro)

2001 31 bn HUF (110 mn Euro)

2001 60 bn HUF (230 mn Euro)

FHB Land Credit and Mortgage Bank - New Funding Strategy (1)

- Streamlined CMB structuring (in line with underlying loan products two basic types):
 - annually variable interest rate (5-10 year) CMB - coupon adjustment benchmark is the one-year Treasury Bond reference rate
 - fix (5-7 year) interest rate CMB
- Systematic issuance strategy:
 - trend: refocusing from private placements to public offerings

FHB Land Credit and Mortgage Bank - New Funding Strategy (2)

- Private placements:
 - ? initial funding mechanism
 - ? step-by-step refunding of gradually accumulating coverage
 - ? average size 0.5-1.5 bn HUF
 - ? more even cashflow vs. illiquidity; limited size
 - ? frequent twin issues (variable and fix rate CMB)
 - ? typical spread over relevant Treasury Bond: 70-100 bp
 - ? total number of closed series: 13

FHB Land Credit and Mortgage Bank - New Funding Strategy (3)

- Public offerings:
 - ? tap issues with periodical reopenings in line with coverage accumulation to build up volume for better liquidity
 - ? average size 7-15 bn HUF
 - ? exchange listing and market maker system (3-7 members for each series) to provide for better liquidity
 - ? higher liquidity vs. more concentrated cashflow: need for risk management (annuity vs. bullet; swaps, derivatives)

FHB Land Credit and Mortgage Bank - New Funding Strategy (4)

- ? free auctioning more successful than subscription (2-3 times overbidding)
- ? calendar issuance from end 2001: monthly twin auctions of open series (one variable, one fix rate series)
- ? typical spread: 40-120 bp over relevant TB
- ? issuance expenses: 30-40 bp
- ? total number of outstanding series: 1 series (6 year fix) closed, 2 series (6 year fix, 8 year variable rate) open

FHB Land Credit and Mortgage Bank - New Funding Strategy (5)

- Issuance in figures (new issues and total outstanding):
1998 private placement, single issue (fix), 1 series
0,8 bn HUF 0,8 bn HUF
1999 private placement, twin issue (fix and variable), 2 series
2,2 bn HUF 3,0 bn HUF
2000 private placement, single and twin issues (f and v), 7 series)
6,6 bn HUF 9,6 bn HUF

FHB Land Credit and Mortgage Bank - New Funding Strategy (6)

2001 private placements (2 series); IPO-s (3 series) - up to
now

12,4 bn HUF 22,0

IPO-s (2 open series) in progress - up to year-end

5,0 bn HUF 27,0

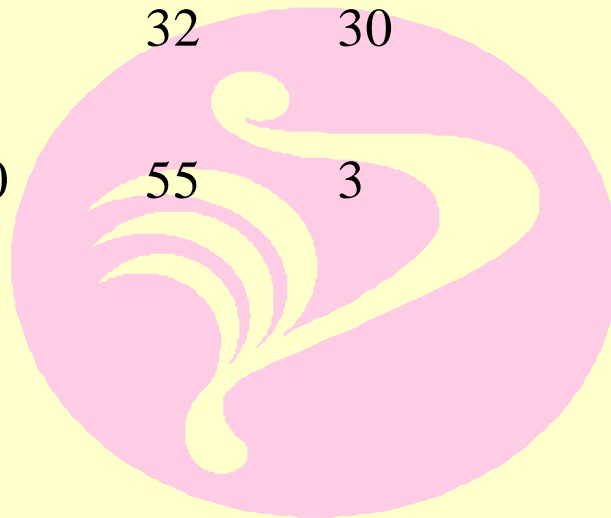
2002 IPO-s, launch of international IPO's (?) - forecast

55,0 bn HUF 82,0

Major Investors in the Hungarian Covered Mortgage Bonds (1)

- Pattern of Distribution (in %)

	Inv.fund	Insurance	Pension Fund	Private	Credit Inst.	Other
Private placements	0	32	30	0	8	30
Public offerings	10	55	3	3	1	28



Major Investors in the Hungarian Mortgage Bonds (2)

- Funding potential of local investors
 - institutional investors
 - ? Total Assets: abt. 1300 bn HUF
 - ? CMB upper limit: 300 bn HUF
 - ? CMB expected limit: 150 bn HUF
 - ? CMB expected annual investment: 40-50 bn HUF
 - ? Funding potential/mortgage bank/year: 15-25 bn HUF

Major Investors in the Hungarian Covered Mortgage Bonds (3)

- private investors:
 - ? Total savings: abt. 7000 bn HUF
 - ? Investments in Treasury Bonds: 600 bn HUF
 - ? CMB expected annual investment: 5-10 HUF
 - ? Funding potential/mortgage bank/year: 2-3 bn HUF
- Other local investors:
 - ? CMB expected annual investment: 10-15 bn HUF (25% of all CMB funding)
 - ? Funding potential/mortgage bank/year: 3-5 bn HUF

Major Investors in the Hungarian Covered Mortgage Bonds (4)

- Conclusion:
 - Hungarian capital market annual funding potential for FHB: 25-35 bn HUF vs. FHB forecast funding need for 2002: 50-55 bn HUF
 - GAP: 25-30 BN HUF (100 Mn Euro)
 - International IPO?; Entry to the Euromarket - Euroforint, Euro CMB?