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Funding Models for Sustainable Mortgage Finance at an Affordable Cost

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Ingredients for Sustainable Housing Finance

- Regulations by the Central Bank
- Good underwriting standards
- Effective servicing methods including follow-ups on defaults
- Availability of long-term finance

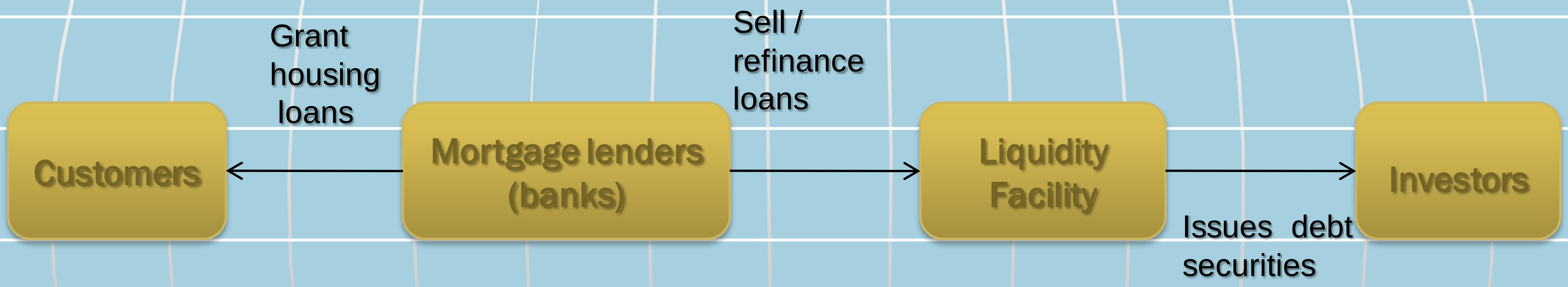
Funding Models for Mortgage Finance

- Deposit Base
- Liquidity Facility
- Covered Bonds
- Securitisation

Liquidity Facility

Liquidity Facility

- Monoline low risk Institution that provides medium/long-term funding to mortgage originators



- Acts as intermediary between mortgage lenders and capital markets
- Issues plain vanilla bonds to raise medium/long-term funds
- Purchases or refinances mortgage loans **with recourse**
- **Objectives of a Liquidity Facility**

Covered Bonds

- Debt securities backed by cash flows from mortgages or public sector loans
- Covered Bonds, unlike securitisation remain on the issuers' balance sheet
- Covered Bonds continue as obligations of the issuer - investors have recourse against issuer and the collateral - "dual recourse"
- **Core features of Covered Bonds**

Securitisation

- Conversion of illiquid housing loans into high quality investment instruments (RMBS)
- **Advantages of securitisation**
- **Prerequisites for securitisation**
- **True sale criteria**

Conclusion

Which is the most optimal model for mortgage financing?