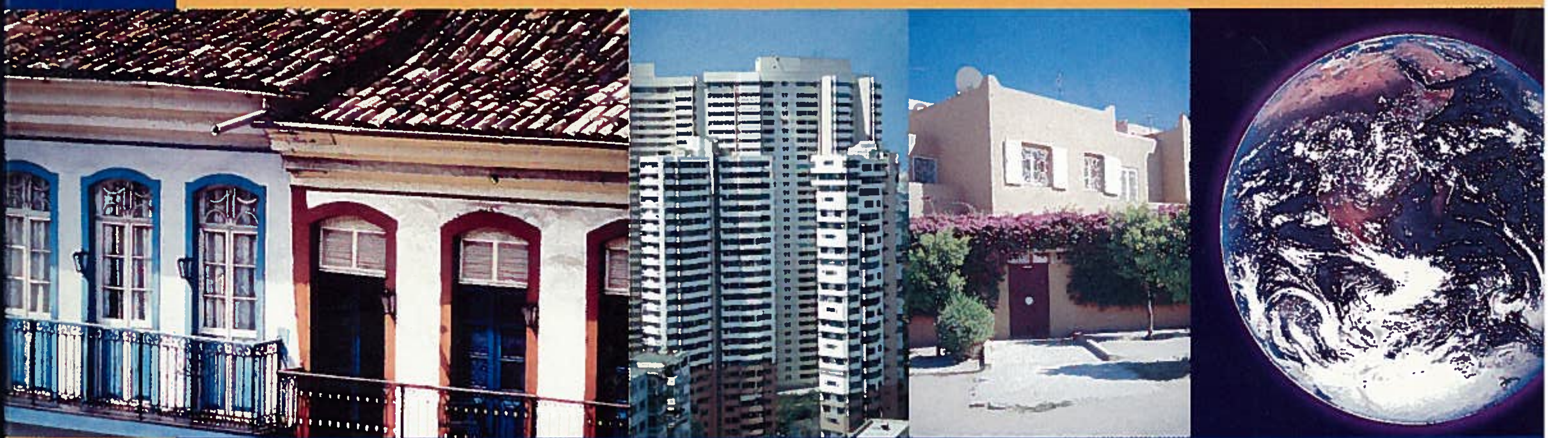
INTERNATIONAL HOUSING FINANCE SOURCEBOOK 2000

Edited by Dr. Michael J. Lea



International Union for Housing Finance

Produced in conjunction with
Countrywide International Consulting Services

Acknowledgments

This book represents the International Union for Housing Finance's most in-depth *Sourcebook* to date. Produced by Countrywide International Consulting Services, LLC, this volume provides country specific chapters with information on national economies, housing markets, mortgage markets, policy developments, and an expanded list of contacts. This version completely revises and updates the 1995 edition, prepared by Cardiff Consulting Services and edited by Michael Lea, and the original version, *International Housing Finance Factbook* written by Mark Boleat in 1987. That version was a revision of Mark's seminal contribution to the field of international housing finance, *National Housing Finance Systems*, published in 1985 by Croon Helm, Ltd. in association with the International Union of Building Societies and Savings Associations.

The editor, Michael Lea, president of Countrywide International Consulting Services, LLC., would like to express appreciation for the many people who made this edition of the *Sourcebook* possible.

> Don Holton, Secretary General and Michelle Jacksier, Administrator of the International Union for Housing Finance for their support and assistance throughout the project;
>
> The Countrywide team: Jackie Blankenship, Paul Clendening, Joe Draus, Melissa Frierson, Monique Gaw, Edward Kralian, David Sakayeda, Kirsten Trosper, and Mark Watson who searched for hard-to-find data and country information and wrote a number of the chapters, and Tom Boone who provided encouragement and support to finish the volume;
>
> Judith Hardt, Secretary General of the European Mortgage Federation, for permission to use the data and descriptions of European housing and mortgage markets that form the basis for the European Union and Norway country summaries;
>
> Douglas Diamond, independent consultant and the world's leading expert on the housing and mortgage markets of Central and Eastern Europe who contributed the country write-ups for Estonia, Hungary, Slovakia, Czech Republic and who work formed the substantial basis of the country reports for Barbados, Egypt, Poland and Russia;
>
> Steven Bernstein, formerly with Cardiff Consulting Services, who contributed substantially to the Argentina, Australia and Brazil country summaries;
>
> Todd Palmer of Freddie Mac, who contributed the country summaries for Ecuador and Paraguay.

Finally, I would like to thank my wife Teresa who put up with the long hours of Internet searches, writing and editing during the last year and remained optimistic and supportive throughout.

Overview of Housing Finance Systems[1]

Descriptions

A characteristic feature of a housing investment is its relative size and long investment horizon, requiring large amounts of long-term finance. The aim of a housing finance system is to provide these funds to the producers and purchasers of housing, both rental and owner-occupied. This simple description has spawned a broad array of institutional arrangements, ranging from contractual savings schemes, to depository institutions specializing in mortgage finance, to the issuance, sale and trading of mortgage securities. All of these arrangements have been created with the same purpose in mind, to channel funds from savers to borrowers.

In an economy without a well developed formal financial system, housing is either self-financed (i.e., out of savings) or *directly financed* between individuals (such arrangements are often referred to as informal finance). Direct finance can be provided by friends, relatives, small savings clubs or landlords (e.g., the *chonsei* system in Korea). Although often the only alternative for households seeking to better their housing circumstances, informal arrangements are typically inefficient and costly in part because the requirements of savers and borrowers are different.

A sign of financial sector development is the funding of housing by formal financial institutions. These institutions can be private sector entities, which can be shareholder owned or mutual organizations or special circuits (i.e., government-backed institutions operating apart from the broader financial markets). As economies develop, provision of housing finance often moves away from extensive reliance on special circuits towards integration of housing finance into the broader financial markets [Diamond and Lea, 1992b].

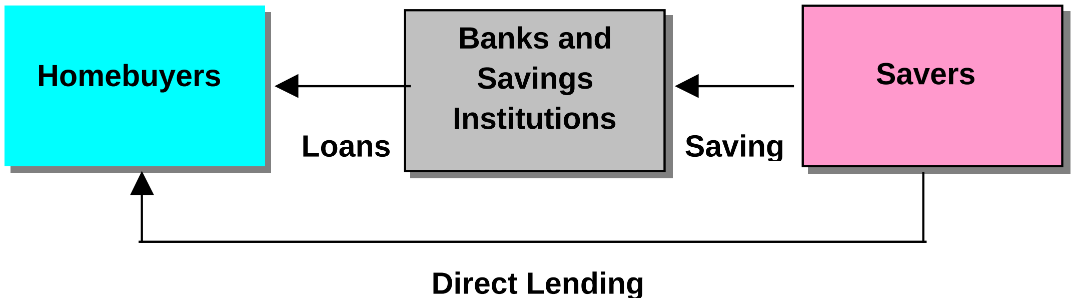
In many countries, the traditional and still predominant model of formal financial sector finance of housing is the *deposit taking system*. In this model, an institution gathers savings from households and enterprises and makes loans to homebuyers (Figure 1). By taking in savings from non-homebuyers, depository institutions can access a much larger pool of funds than through dedicated savings. There are several types of deposit taking institutions, including commercial banks which offer a complete range of banking services, savings banks which deal largely with the household sector, and specialist housing finance institutions (building societies or savings and loan associations) which focus their lending primarily on housing. A key feature of a depository system is that the institution originates, services and funds the loan. Funding is primarily through retail deposits but these institutions may also issue bonds and mortgage securities. Another key feature is the short-term, variable rate nature of the funding.

---

[1]This section is an updated version of the Overview from the 1995 edition of the *Sourcebook*. Helpful comments were provided by Achim Dübel.

Figure 1

Depository and Direct Lending



Specialist deposit funded institutions have traditionally dominated the provision of housing finance in English speaking countries (e.g., Australia, Canada, South Africa, the United States). The model for housing finance in these countries originated with the terminating building societies founded in England in 1775. The early building societies were formed to mobilize savings of lower and middle income households for the sole purpose of home construction. These institutions gradually evolved into specialized depository institutions with broader asset and liability powers but retained their focus on housing finance. In recent years, there has been a decline in the influence of specialized depositories which have been losing market share (or converting) to commercial banks and other forms of intermediation.

Contract savings systems can be viewed as specialized depository institution circuits. In many respects they are similar to the terminating building society in that they are often closed (meaning that the vast majority of funds for home purchase are derived from the savings attracted from potential homebuyers). Contract savings are major components of the housing finance systems of Austria, France and Germany and have been utilized in French-speaking Africa and Latin America.[2] They generate funds through contract savings, generally at a below market fixed rate of interest. Fulfillment of the contract entitles the savers to a below market fixed interest rate loan. In France and Germany the contract savings system provides supplementary credit (i.e., second mortgages) while in Austria it provides primary mortgages. Contract savings are generally supported by government through savings bonuses and favorable tax treatment. A specialized form of contract savings exists in Singapore through the activities of the Central Provident Fund that serves general retirement purposes. Savers can use their mandatory savings for downpayments and mortgage payments (but not rent payments - thus accounting for the extremely high rate of homeownership). The Fund assumes the position of the first lien holder and households frequently obtain supplementary funds from banks.

An alternative to the depository institution model is the *mortgage bank system* (Exhibit 2). In such systems, specialized institutions (mortgage banks) originate and service

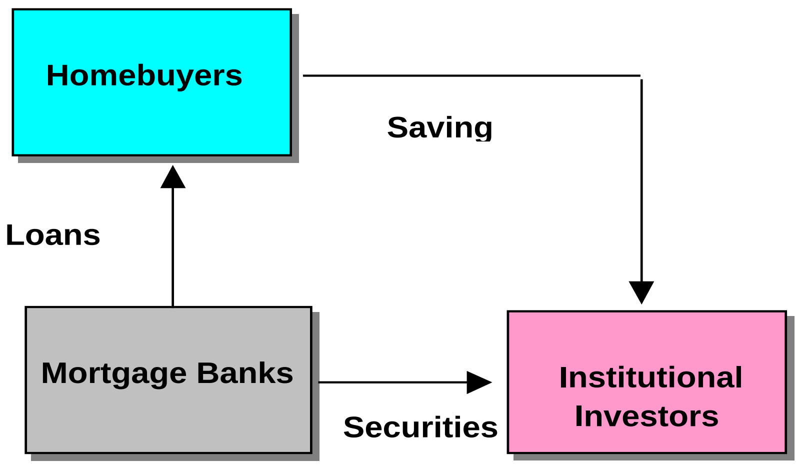
---

[2]For more detail on the French and German systems see Diamond and Lea [1992a].

portfolios of mortgage loans which are funded by securities they issue. The securities are general obligations of the mortgage bank and are typically purchased by institutions with long term sources of funds (e.g., pension funds and insurance companies). The mortgage bank model has been around since the mid-1800s and is extensively used in continental Europe (particularly in Germany and Scandinanvia). A major feature of mortgage banking systems is the predominance of of long-term, fixed-rate mortgages.[3]

Figure 2

Mortgage Bank System



A depository system is frequently referred to as a retail approach as institutions deal directly with the public in lending and borrowing funds. The mortgage bank system is a combination of a retail and a wholesale approach. Its wholesale character comes from the funds raising side wherein funds are obtained primarily from institutional sources through the broader capital market rather than directly from the public.

A fourth approach which has gained popularity in recent years is a *secondary mortgage market* (Exhibit 3). A secondary market ("SMM") involves the sale of mortgage loans (or loan portfolios) or MBS backed by specific pools of mortgages.[4] As such, it involves the transfer of the risks and ownership of mortgage loans to a third party. The loans may be sold to specialized institutions called conduits or through special purpose, separately capitalized vehicles. These entities raise funds through issuance of securities backed (or collateralized) by the loans. The majority of residential mortgage loans in the U.S. are funded through the SMM. MBS have been issued in Australia, Canada, South Africa, a number of Asian and Latin American countries and most European countries.

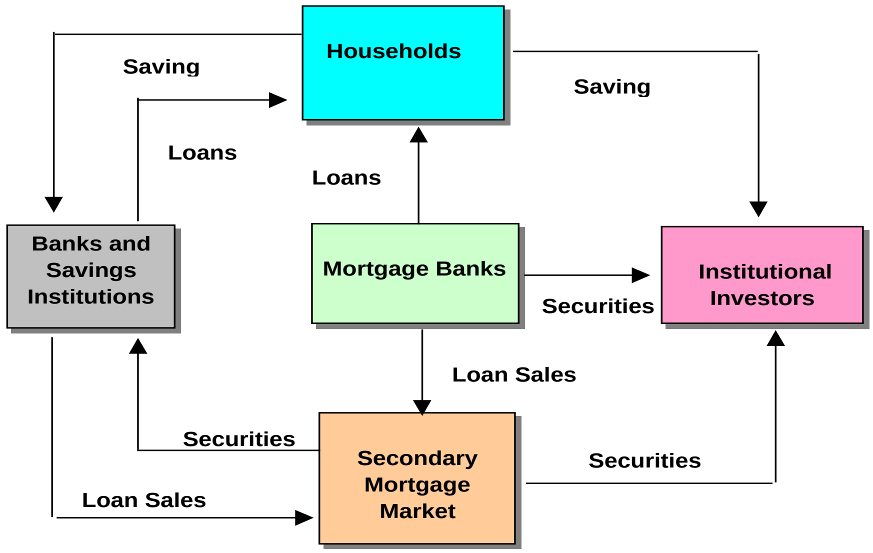
---

[3] For more detail on European mortgage banking systems see Hardt [2000]. The loans may be fixed to maturity (e.g., Denmark for 20 or 30 years) or for shorter periods of time (e.g., in Germany for a maximum of 10 years on a 30 year loan).

[4] An MBS is a pass-through security in which borrowers' monthly principal and interest payments and loan payoffs are passed directly to the investor net of servicing and guarantee fees. MBS can be used as funding instruments without creating a market (e.g., private placements of securities or sales of whole loans). For a more detailed discussion of mortgage bond and secondary market systems see Lea [1999].

Figure 3

Housing Finance With a Secondary Mortgage Market



The SMM model was originally developed in the U.S. in the 1970s as a method to sell mortgage loans (i.e., achieve off-balance sheet financing) in order to reduce the risk (both interest rate and liquidity) associated with fixed rate mortgage lending. The provision of payment guarantees with the securities issued by government sponsored enterprises ("GSEs") such as Fannie Mae and Freddie Mac facilitates investor acceptance. The investor in a guaranteed security cares mainly about the default risk of the guarantor and not that on the individual loans that comprise the collateral. The investor is exposed to the cash-flow risk of the security which ultimately led to the creation of the collateralized mortgage obligation as a means to attract institutional investors.[5] In recent years, securitization has developed in other countries and the U.S. without the aid of government and has played an important role in improving market liquidity and bank risk and capital management. These transactions become feasible when wholesale sources of funds are cheaper than retail and/or lenders are capital constrained.

The portfolio acquisition activities of the GSEs expanded in the 1990s. Both Fannie Mae and Freddie Mac increasingly hold mortgage assets on their balance sheet and fund themselves with the issuance of straight and callable debt. This approach to housing finance is similar to that of the European mortgage banks.

In many countries, government supported or controlled institutions have a prominent role in the provision of housing finance. The largest housing finance institution in the world, the Government Housing Loan Corporation of Japan, is a government entity. The largest housing finance institution in the U.S., Fannie Mae, is a government-sponsored enterprise

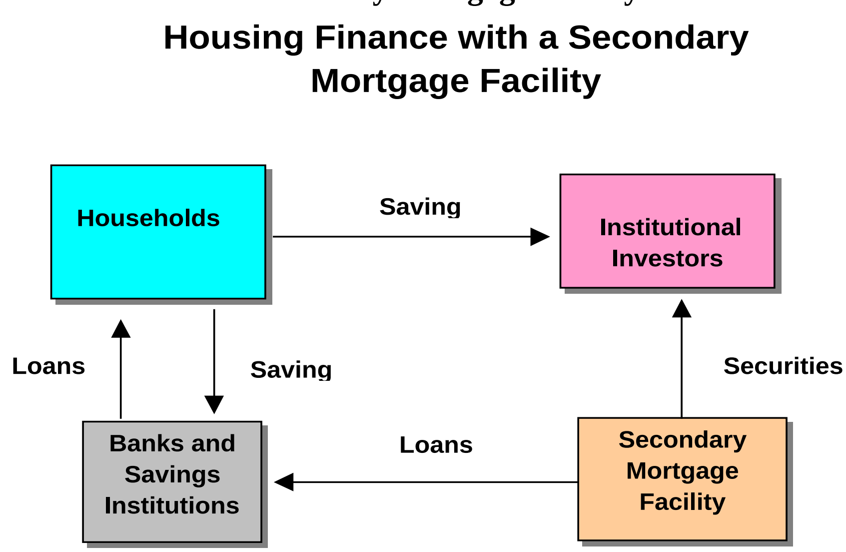
[5] The CMO allocates cash flows received from a pool of mortgages sequentially among a group of securities.

with private shareholders but a limited government charter and both funding raising and tax advantages. There is an emerging privatization trend with former government supported institutions in Argentina, Australia, France, Korea and Spain being partially or totally sold to the private sector. Housing finance retains a preferential place in most national financial systems (e.g., through tax deductibility of mortgage interest, favorable treatment of mortgage loans for capital adequacy and investment regulation).

Government institutions can be either retail or wholesale in their activities. Retail institutions (housing banks) are typically depositories mandated to lend most of their funds to housing. As mortgage markets develop, however, a common problem with these institutions has been their crowding out of private market participants (particularly if their lending and fund raising is not well targeted).

An alternative to the retail housing bank is the second-tier, or wholesale, institution (Exhibit 4). These institutions, referred to as liquidity, rediscounting or secondary mortgage facilities ("SMF"), are typically government owned or supported. They issue general obligation bonds in the capital markets and use the proceeds to refinance the portfolios of primary market lenders.[6] In the U.S., the Federal Home Loan Banks have been making collateralized loans to mortgage lenders since the 1930s. Similar institutions exist in France, India, Jordan, Malaysia and Switzerland. The securities issued by these institutions are general company obligations and usually not collateralized by the loans.

Figure 4
Secondary Mortgage Facility



The use of one or more of these systems depends on the stage of development of a country's financial markets as well as government policies. Housing finance usually emerges as a retail activity. Wholesale funds mobilization develops if the banking system

---

[6] Refinance can be through over-collateralized loans or recourse purchase. In either case, the facility bears minimial credit risk from default on the underlying collateral. See Pollock, A. [1994].

is constrained from supplying sufficient mortgage credit to meet demand or if capital market sources of funding are more cost effective. The issuance of securities is, however, premised on the existence of well developed capital markets. The creation of secondary market institutions has been motivated by the desire to expand the capital market finance of housing.

Obstacles to the Development of Housing Finance

In many countries, the provision of housing finance is viewed as insufficient to meet the demands of households. Generally this means that mortgages are not attractive investments. The risks of providing long-term credit are a major reason why housing loans may not be attractive investment These risks include credit risk, funding risk, agency risk and political risk [Diamond and Lea, 1995].

First, because mortgages are obligations of individuals, secured by property in a particular location, assessment of *credit risk* can be costly and time consuming. The ability of the lender to foreclose on loans in default in a reasonable time period with reasonable costs is a major determinant of credit risk.

Second, even if credit risk is manageable, retail lenders may perceive significant *funding risk* in mortgage investment. To be affordable, mortgages must be long term (typically 15 or more years in maturity although with amortization and early repayment their duration is 5 to 7 years). Lenders with primarily short term liabilities are subject to significant liquidity risk if they allocate a substantial portion of their assets to mortgages. Also, mortgage borrowers may demand fixed rate loans. Lenders with primarily short term liabilities are subject to considerable interest rate risk if they invest in such loans (e.g., U.S. savings and loans in the 1970s). Lenders with primarily long term liabilities, in turn, are subject to warehousing risk when assembling the pools. Long-term lenders are also more susceptible to inflation risk.

Agency risk arises when a divergence of incentives between agents occurs. In mortgage lending, if the originator is different than the ultimate funder a divergence of incentives occurs between the lender (who is motivated to produce loans) and the risk bearer (who must bear the consequences of poorly underwritten loans). Agency risk also arises with the use of guarantees where the activities of the insured directly affect the exposure of the insurer. In the U.S., the high risk lending by some bankrupt savings and loans demonstrated the mortal hazard aspect of government deposit insurance.

Political risk arises when the legal and political framework within which lending takes place changes. A change in the enforceability of mortgage contracts (loan forgiveness by the government) can discourage lenders. The presence of a state subsidized competitor(s). with preferential access to low cost (government subsidized) sources of funds can crowd out private lenders from the market by offering lower rates and/or better terms. Borrowers will often queue to receive below market rate loans, depriving private lenders offering market rate products a profitable customer base.

Solutions to the Lack of Housing Finance

The proper solution to the perceived lack of mortgage lending depends on the primary cause of the market breakdown. In many countries, the lack of access to collateral by borrowers and lenders is the major barrier to expansion of housing finance. Without collateral, lenders are more reluctant to lend, housing loans are more expensive and borrowers do not benefit from the fixed asset they own. This can happen if clear title cannot be established or if the legal system does not allow foreclosure. Expansion of the housing finance system to lower and moderate income households is unlikely without a firm legal basis for collateralized lending.

If lenders are reluctant to extend credit because of the costs of underwriting loans or the inability to achieve geographical diversification, a mortgage insurance system may stimulate more lending. Insurance can be provided by the government (the Federal Housing Administration or FHA in the U.S.) or the private sector. Insurance or security guarantees remove concern over the lack of standardization in or information about mortgages for institutional investors and thus stimulate a SMM. However, in most cases mortgage insurance cannot offset the lack of collateral or inability to pay by many borrowers. Public insurance programs may result in a shifting of risk from the private to public sector and create disincentives for proper credit risk management.

A SMF is appropriate if primary market lenders have poor access to the broader capital markets or concerns exist about their ability to manage interest rate or liquidity risk. Security issuance is a more efficient way of raising funds than individual loan sales. A SMF may be able to issue longer maturity bonds than individual institutions. If the institution is well capitalized (or supported by the government) it can achieve a higher credit rating on and lower cost funding for its activities than private issuers. A centralized institution may be able to issue securities with lower transactions costs. Issuance of a large volume of standardized securities can result in greater liquidity than issues of individual institutions.

SMMs develop when true off-balance sheet financing is desired. Transfer of ownership enables lenders with relatively little capital to compete in the mortgage market. Although MBS can be issued by private sector concerns, they are complex, unique and costly to issue. In addition, the issuing entity still must confront the problems associated with introducing a new security and assuring investors of its liquidity and credit worthiness.

The activities of governments (e.g., through state housing banks) are often justified as a way to lower the cost of credit to home builders and buyers. Subsidizing interest rates is costly and can crowd private lenders out of the market. More importantly, interest rate subsidies often miss the point as to why loan rates are high in the first place and – in the case of long-term loans – provide subsidies far beyond the initial period of affordability constraints. Subsidized rates will not solve the credit risk problems faced by lenders in systems with inadequate legal protections. Also, they cannot overcome the problems associated with using the wrong kind of mortgage instruments (e.g., a long-term fixed rate mortgage in an inflationary environment). Fundamental advances in recent years in developing countries have been made through the use of alternative mortgage instruments (e.g., indexed mortgages) which balance the affordability of mortgage credit with its profitability to the lender.

Global Trends

In the 6 years since the publication of the last edition of the *Housing Finance Sourcebook*, there have been significant changes in the provision of housing finance around the world. There has been a major change in the macroeconomic environment in which housing finance institutions operate. Increased integration of the global economy now allows funds to flow more readily across national boundaries. A big step in this direction was taken by most of the countries in the European Union which adopted the common currency at the beginning of 1999. The issuance of mortgage-backed securities and mortgage bonds has expanded, facilitating greater access to funds for housing and providing a mechanism for cross-border investment in housing.

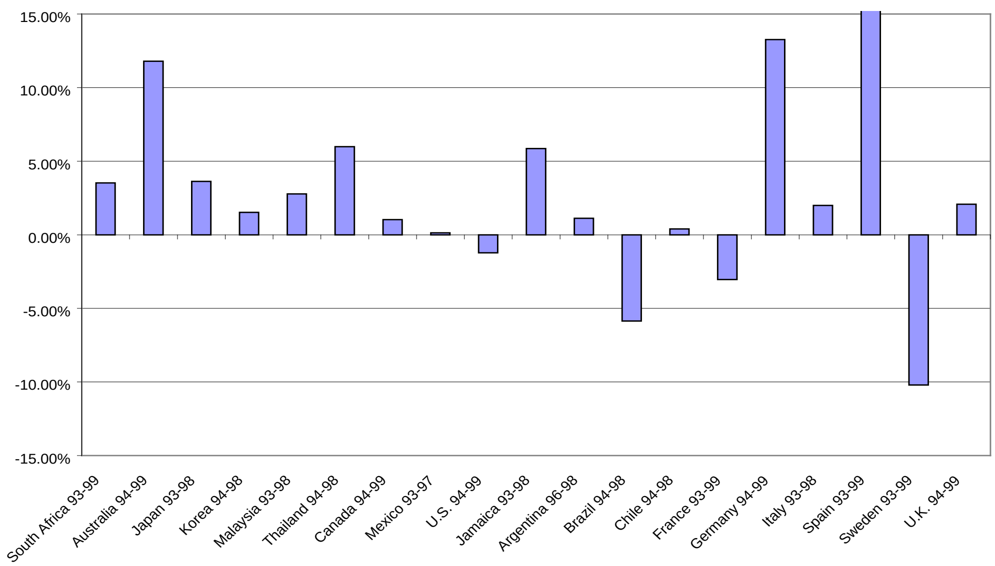
Increased integration has resulted in greater volatility in local economies and housing finance systems as crises such as those that started in Thailand and Russia spread across the world. These pertubations have had significant effects on housing finance lenders, either through weakening of their balance sheets (often for reasons apart from the quality of their housing loan portfolios) and/or a drying up of funds, particularly long term funds suitable for mortgage lending.

Despite the greater volatility, there are signs that housing finance is advancing on a global basis. Mortgage debt-to-GDP ratios have been rising, particularly in emerging markets. As shown in Figure 5, mortgage debt has been expanding relative to the size of the economy in many countries in Asia and Latin America, despite the volatility both regions experienced during the second half of the decade. The increases in Latin America are smaller with Argentina and Chile registering small increases but Brazil which was particularly affected by the crisis having a significant reduction in the ratio. Outside of South Africa, however, housing finance remains rather underdeveloped throughout Africa.

The recent experience in developed countries is more mixed. The mortgage markets of the pheriphal countries of Europe (e.g., have grown rapidly reflecting the combined effects of liberalization and falling interest rates. The German mortgage market has also grown significantly relative to the growth of the economy, in part due to on-going reconstruction efforts in the former East Germany. The French market fell in relative size, in part due to a shift away from use of the mortgage as a legal instrument. The mature US mortgage market shrank slightly relative to the size of the economy. Despite its economic and financial sector problems, the Japanese market has grown relative to the economy during this period.

Figure 5

% Growth in Mortgage Debt/GDP in Selected Countries



Global mortgage markets remain quite varied. Commercial and savings banks are the dominant lenders in most countries. The role played by specialized depository institutions has continued to decline, particularly in the UK and its former colonies as many building societies have converted to and/or been absorbed by commercial banks. Although securitization has become more important in recent years, as evidenced by the number of countries (at least 24 countries in 6 continents) that transactions have taken place over the past 6 years, in all countries outside of the US it remains an ancillary form of finance. Mortgage banks remain important lenders in Europe and the US, but increasingly they are subsidiaries of larger financial groups headed by commercial (universal) banks. The new Basel capital accords may change the relative importance of mortgage bonds and mortgage-backed securities.

A major emerging characteristic of mortgage markets is functional separation (or unbundling) in which specialists perform the various functions underlying a mortgage loan.

As shown in Figure 6, in the bundled model of mortgage lending a financial institution performs the major functions of origination, servicing, funding and portfolio risk management. These intermediaries may utilize the services of third-party vendors, such as mortgage insurers, appraisers and credit agencies. However, a single firm accomplishes the primary functions. The portfolio lender originates a mortgage to a homebuyer, services it and performs the pipeline risk management and portfolio management functions, including funding. Portfolio lenders may be specialized institutions such as savings and loans, building societies or European-style mortgage banks, or general-purpose depository institutions (commercial banks, savings banks).

Figure 6: The Bundled Home Mortgage Delivery System

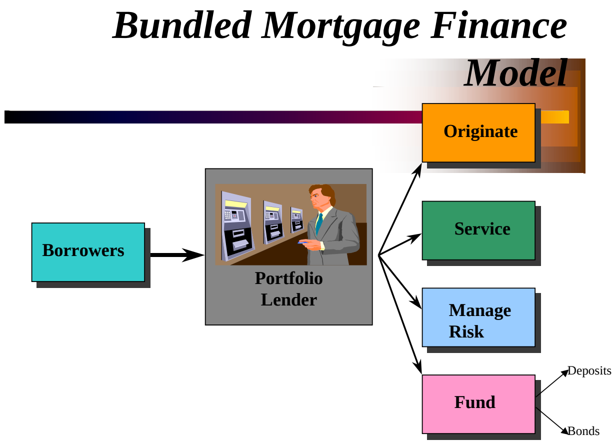
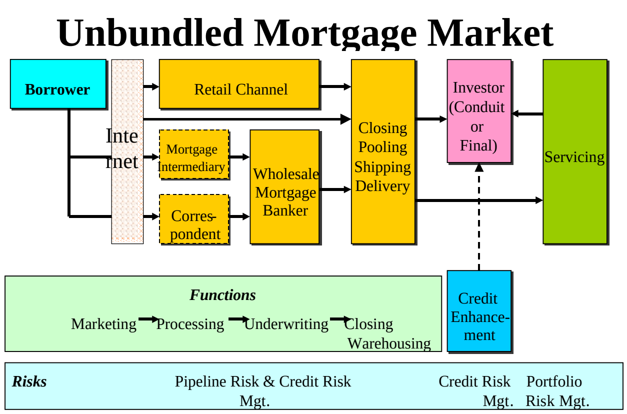


Figure 7 shows the unbundled mortgag [redacted] stem characteristic of a secondary mortgage market. In this model the func [redacted] nation, servicing, risk management and funding are unbundled and provided [redacted] pecialized entities.

Figure 7: Unbundled Mortgage Delivery System



For example, mortgage origination is no longer confined to retail branches of financial institutions, although they remain important distribution channels. Mortgage intermediaries (introducers, brokers) are increasingly important in many markets. These entities may be specialists in mortgage origination or originate mortgages in conjunction with other activities such as real estate brokerage, providing financial advisory services or building homes. The functions they perform may also vary. Most intermediaries in the UK for example, are mainly marketing agents, providing referrals and loan applications whereas in the US many mortgage brokers process applications and package loan files. Correspondent lenders close loans in their own name (but underwritten to the specifications of the ultimate investor) and immediately sell them to larger, wholesale lenders that can get better execution upon sale in the secondary market. The Internet is rising in importance in mortgage lending but primarily as an adjunct to existing distribution channels. "Pure" Internet origination has not yet proven itself as a stand-alone channel as it depends on other channels for fulfillment.

The institution that originates the loan may or may not be the one that services it. In recent years, mortgage servicing has become much more consolidated in the US, with the top 10 servicers administering over 40% of the market. Various aspects of servicing, such as arrears management have become even more specialized, as the importance of this function has risen with the advent of the sub-prime mortgage market in developed markets such as Australia, UK and US. Outsourcing of administrative functions, whether by commercial banks or specialist lenders is also becoming more commonplace.

In the unbundled model there are a wide variety of investors in housing loans, ranging from depositories (investing in loans originated and serviced by others) to mutual funds. In the global market they may be either domestic or foreign. Credit risk management is often specialized as well, provided by third parties such as mortgage insurance or bond insurance companies (public or private) for the benefit of investors.

What are the main drivers of unbundling? Two major factors are competition and technology. Housing finance is becoming a more competitive business on a daily basis, creating spread compression and incentives to cut cost. Administrative activities like servicing lend themselves to automation and scale economies that can be achieved through consolidation and outsourcing. Improved and more timely access to information facilitates monitoring of agent behavior, reducing both cost and risk associated with unbundling.

What does the future hold for housing finance? In countries in which the legal and institutional framework has been established, housing finance will grow and become more competitive. Mainstream lenders like commercial banks will increasingly look to housing finance as an important service to provide their customers. Securitization will become more widespread as lenders look to diversify funding sources, information on mortgage performance improves and investors become more knowledgeable. Consolidation of back office functions will increase in developed markets as will the use of multiple channels of distribution.

In countries with undeveloped housing finance systems, emphasis must be placed on creating the proper infrastructure for a sustainable system. The two most important ingredients are a sound legal infrastructure and stable economy. If these are in place, a primary mortgage market can grow and prosper bringing the promise of homeownership closer for all.

References

1. Boleat, M., *National Housing Finance Systems: A Comparative Study*, London, Croon-Helm Ltd, 1985.

2. Diamond, D.B. and M.J. Lea, "Housing Finance in Developed Countries: An International Comparison of Efficiency" *Journal of Housing Research*, 3,1, 1992a.
3. Diamond, D.B. and M. J. Lea, "The Decline of Special Circuits in Developed Country Housing Finance", *Housing Policy Debate*, 3,3, 1992b.
4. Diamond, D.B. and M.J. Lea, "Sustainable Financing for Housing", Fannie Mae Office of Housing Research Working Paper, 1995.
5. DÜBEL, A., "Separating Homeownership Subsidies from Finance: Traditional Mortgage Market Policies, Recent Reform Experiences and Lessons for Subsidy Reform", Land and Real Estate Initiative Research Papers, Background Series # 14, The World Bank, Washington, D.C., 2000.
6. Hardt, J. and D. Manning, "European Mortgage Markets: Structure, Funding and Future Development", European Mortgage Federation, June 2000
7. Lea, M.J., "The Applicability of Secondary Mortgage Markets to Developing Countries", *Housing Finance International*, 8, 3, March 1994.
8. Lea, M.J., "Models of Secondary Mortgage Market Development", in M. Watanabe, ed., *New Directions in Asian Housing Finance*, International Finance Corporation, 1998
9. Lea, M.J., "Prerequisites for a Successful Secondary Mortgage Market: The Role of the Primary Mortgage Market", Housing Finance International, 15, 2 December 2000.
10. Lea, M.J. and S. Bernstein, ed., *Housing Finance Sourcebook*: 1995, International Union for Housing Finance, 1995
11. Pollock, A., "Simplicity Versus Complexity in the Evolution of Housing Finance Systems", *Housing Finance International*, 8, 3, March 1994.

AFRICA AND MIDDLE EAST

Regional Summary

Sub-Saharan Africa

Sub-Saharan Africa as a whole is an impoverished region where there is very little formal housing finance. The region is experiencing economic difficulties, including volatile and predominantly rising inflation rates over the last decade, as well as high rates of unemployment. Political instability and centrally controlled industry contribute to these problems. Standards of living are low and actually declining in some countries.

Homeownership rates are high, reflecting a relatively low rate of urbanization and high level of informal housing in most countries. The lack of formal title registration and communal property ownership traditions in many countries inhibit the use of property as collateral for lending. Housing stock shortages are also prevalent throughout the region with far fewer new homes constructed each year than are needed.

Informal finance of housing is common in Africa whether it is through relatives lending money or unorganized and unregulated small-scale financing. Although the region has institutions with the potential to provide funding for housing, the low-income levels and the risk associated with such lending are major inhibitors to the development of mortgage markets. As a result, mortgage debt-to-GDP ratios outside of South Africa are extremely low. South Africa with a mortgage debt-to-GDP ratio of 26% and US$ 32,736 in mortgages outstanding is the lone exception.

Efforts are underway to help develop the mortgage markets in Africa. In South Africa, companies such as Gateway and the Home Loan Guarantee Corporation, focus on relieving financial institutions from some of the risk associated with default and long term finance in an effort to promote home financing for the lower economic strata. Efforts are also underway to nurture secondary mortgage markets and securitization.

Middle East and North Africa

The economies of the Middle East and North Africa have been improving in recent years as evidenced by declining inflation rates and increasing rates of GDP growth. Throughout the region there has been a move towards freer markets and less state intervention in the economy. Unemployment rates remain high however and have been increasing in Israel and Jordan. All countries in the region have high rates of homeownership.

Housing finance is relatively undeveloped in the Middle East and North Africa, reflecting highly conservative attitudes towards debt finance on the part of borrowers and lenders alike. A lack of long term finance and extreme concern about liquidity risk are major inhibitors to growth of the sector. Israel has the largest mortgage market in this region, due primarily to a high level of government involvement. In other countries, housing finance is just beginning to develop.

In Turkey for example, private housing finance only emerged in 1999 as inflation rates declined. Outstanding mortgages are approximately $US 821 million, less than 1% of

Gross Domestic Product. Housing finance has also begun to develop in Jordan, spurred by deregulation and creation of a liquidity facility to provide long term funds. Jordan's outstanding mortgage debt is US$ 426 million, and it is 11% of GDP.

ALGERIA

Economic Background

				Dinar	US$
Year	Exchange Rate Dinar/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	12.19	29.34	16.62%	555,700	45,587
1991	21.39	36.94	25.89%	843,700	39,444
1992	22.78	48.63	31.67%	1,045,100	45,878
1993	24.12	58.62	20.54%	1,162,100	48,180
1994	42.89	75.65	29.05%	1,471,400	34,306
1995	52.18	100.00	32.18%	1,961,700	37,595
1996	56.19	121.65	21.65%	2,501,000	44,510
1997	58.41	126.32	3.84%	2,613,550	44,745
1998	60.35	132.64	5.00%	2,552,805	42,300
1999*	69.31	136.08	2.60%	3,299,156	47,600

The economy in Algeria is largely tied to the oil and gas sectors; however, recent economic expansion is attributed to recent investment in an expanding hydrocarbon sector. Approximately one fourth of the country's GDP comes from the hydrocarbon sector. This industry accounts for more than half of Algeria's budget revenues and over 95% of export earnings. Total GDP was estimated at US$ 45.5 billion in 1990 but decreased to US$ 37.5 billion by 1995. The 1999 estimate of GDP was approximately US$ 47.6 billion.

Inflation has tended to be extremely high in Algeria. IMF statistics indicate that while inflation in 1997 was at 3.8%, the country began the decade with 16.6% in 1990, peaked at 32.2% in 1995, and remained over 20% in every other year throughout the 1990s. Estimates indicate that the unemployment rate was at 30% in 1998. Of an approximate labor force of 7.8 million, 29.5% work for the government, compared to 16.2% working in construction and public works. There is little information regarding interest rates in Algeria. In 1997, the Treasury bill rate was 18% the money market rate was 11.8% , and the fixed lending rate approximately 12%.

Housing Market

Algerians have experienced a deteriorating quality of living standards. A poverty assessment by the Government of Algeria between 1988-95 indicates that poverty increased from 8% to 14% during the period. Although poverty is mainly centralized in urban regions, it has become a national concern. More than half of the households in Algeria were classified as low-income by 1996.

Year	Population (Millions)	Owner Occupancy	Total Dwelling Stock (Millions)	Housing Starts*
1990	25.02	19,740	3.00	88,100
1991	25.64	10,920	3.08	65,300
1992	26.27	13,700	3.15	88,000
1993	26.89	8,500	3.24	80,100
1994	27.50	44,000	3.32	118,700
1995	28.06	57,100	3.44	161,000
1996	28.57	56,700	3.60	132,200
1997	29.05	51,100	3.80	161,700
1998	29.80	52,388	3.90	164,660
1999	31.10	55,038	4.10	171,867

Source: Ministry of Construction

Housing stock grew from approximately 3 million in 1990, to over 4 million by 1999 (approximately 1.34% of which was owner occupied). In 1993, there were 15,700 households being rented, compared to 66,670 in 1999. Housing completions have increased substantially since 1990, from an estimated 65,000 completions in 1991 to over 171,000 by 1999. This increasing demand in the housing sector is greatly due to many low-income social housing programs initiated by the Government of Algeria. In fact, the government seeks to provide expansion of the housing market in the four major cities of Algiers, Oran, Constantine, and Annaba. Shortages in housing units available became a major concern in 1993, due to a shortage of construction materials such as cement.

Mortgage Market

The mortgage instrument used is a standard 20-year, amortizing fixed rate instrument. In addition, it assumes a 25% payment-to-income ratio. The mid-range incomes are from 20% to 70% deciles (approximately 10,483 Dinar to 14,153 Dinar per month).

Assuming a payment-to-income ratio of 25% the maximum monthly loan payment would be 2,621 Dinar to 3,538 Dinar. At a fixed 13% amortizing loan rate, the typical loan range would be approximately 224,000 Dinar –to302,000 Dinar.

Policy Developments

- In 1992, a new Minister of Housing was appointed and charged with the responsibility of urban development, in addition to the typical oversight of construction.
- In June of 1998, the World Bank approved a US$ 150 million loan to the Government of Algeria for low-income housing. This program will seek to improve the lives and living standards of more than 300,000 people over a ten-year period.
- The Government of Algeria has created a proposal that seeks to help create jobs and increase the income for unemployed individuals via short-term employment opportunities. This project, if approved, will be implemented between FY01-04.

Sources and References

1. World Bank, http://www.worldbank.org/
2. CIA World Fact Book 1999 - Algeria

3. Bernstein, Steven. “The Algerian Housing Market and the Algerian Mortgage Refinance Corporation: A Brief Overview of the Statistics.” August 3, 1998

BOTSWANA

Economic Background

				Pular	US$
Year	Exchange Rate Pular/ US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	1.87	55.14	11.40%	6,490.70	3,470.96
1991	2.07	61.63	11.77%	7,496.50	3,621.50
1992	2.26	71.60	16.17%	8,298.60	3,671.95
1993	2.56	81.86	14.33%	9,045.40	3,533.36
1994	2.72	90.49	10.54%	10,972.50	4,034.01
1995	2.82	100.00	10.51%	12,252.00	4,344.68
1996	3.64	110.08	10.08%	14,201.80	3,901.59
1997	3.81	119.59	8.64%	17,485.70	4,589.42
1998	4.46	127.56	6.66%	20,363.10	4,565.72
1999	4.63	136.65	7.13%	23,258.90	5,023.52

Source: IMF

Previously a British Protectorate, Botswana became a Democratic Republic in 1966. The country is faced with poverty and unemployment, and it is working towards improving the quality of life for its people. According to the World Bank, Botswana is one of very few African States classified as a lower, middle-income country.

As of 1997, approximately 80% of the people in Botswana made their livelihood from the agricultural sector. However, diamond mining and tourism are growing contributors to the economy. In fact, mining currently contributes 33% of the Botswana GDP, compared to 1% at the time of the country's independence from Britain.

GDP has generally experienced an increasing trend during the 1990s. In 1990, GDP was valued at approximately US$ 3.47 billion, as compared to US$ 4.34 billion in 1995. It finished out the decade with just over US$ 5 billion for 1999. Botswana had one of the stronger sub-Saharan economies the second half of the decade.

Inflation has displayed a decreasing trend, more noticeably between 1997-99. Inflation peaked at 16.17% in 1992, and it remained in double-digits through 1996. Inflation registered at slightly more than 7% for 1999. Unemployment is very high in Botswana. Estimates report that with an approximate population of 1.57 million people, 21% of the total labor force is unemployed. In 1995 it was estimated that 100,000 people worked in the public sector, and 135,000 in the private sector. Approximately 15% of the labor force were employed in construction in 1997.

Housing Market

As of mid 1999, the median age in Botswana was registered at 18.2 years and an average household size of 3.56 (which translates to a demand of 11,979 new units per year). These two statistics indicate a possible explosion in housing demand.

The housing sector can be divided into two sectors; urban centers and rural areas, including major villages. Rural housing is mainly owner-occupied, while urban regions are limited to investment. Hundreds of plots are left untouched and open to individual buyers. However, several urban development projects are in-process or under consideration.

The government generated nearly all of construction in Botswana. By 1995, the total stock estimate was 904,525 units.

Mortgage Market

Private funding is the most important source of financing for residential housing in Botswana, while, the government is the main source of finance for urban housing. The Government of Botswana provides building material loans to the Self Help Housing Association (SHHA), and mortgage loan guarantee schemes through the Botswana Building Society. The SHHA has been plagued with high building material loan defaults and a lack of administrative organization. There are other institutions in the housing finance sector including:

- **Botswana Savings Bank** – These banks are operated through the Post Offices throughout the country. The target market is civil workers.
- **Botswana Housing Corporation** – Sells houses to individuals under the Tenant Purchase Scheme, in which the tenant is allowed to use his monthly rent towards the buying of the property.
- **Commercial Banks –** There are five commercial banks in the country, all of which are major contenders in the home financing sector.
- **Employer Organizations –** Some employers opt to offer loans exclusively to their employees, forming a substantial portion of the market.

Interest rates tend to be slightly above the prime lending rate, which is determined by the Central Bank. Private lending institutions, however, can set their own rates. These originators typically generate interest rates ranging from 0.5% to 1.5% above the prime lending rate. Mortgage lenders in Botswana provide loans for purchasing homes, refinancing, improving homes, and for developing commercial and industrial properties. Additionally, the mortgage market is composed of housing schemes, which are programs

Income Category	Income Range (Pula/year)	Housing Scheme
Poor/ Unemployed	below P$ 1,800	Integr. Poverty Alleviation
Low Income Urban	P$1800-10,000	SHHA
Middle Income Lower	P$10,001-16,000	Housing Associations
Middle Income Upper & High Income	P$16,001 & above	BHC

designed for the financing of various income levels.

Policy Developments

The government's long-term policy is to ensure safe and sanitary housing for all. It plans to build new urban houses in a short time so that no individual is forced to live in an illegal settlement. Additionally, the government plans to improve the quality of housing in rural areas by implementing a modified version of the Self-Help scheme.

Sources and References

1. World Bank, www.worldbank.org
2. CIA World Fact Book 1999 - Botswana
3. Botswana Building Society

EGYPT

Economic Background

Year	Exchange Rate E£ / US$	Consumer Price Index	Change In Consumer Prices	Egyptian £ Nominal GDP (Millions)	US$ Nominal GDP (Millions)
1990	2.00	52.37	16.76%	96,100	48,050
1991	3.33	62.72	19.75%	111,200	33,393
1992	3.34	71.27	13.64%	139,100	41,647
1993	3.37	79.88	12.09%	157,300	46,677
1994	3.39	86.40	8.15%	175,000	51,622
1995	3.39	100.00	15.74%	205,000	60,472
1996	3.39	107.19	7.19%	228,300	67,345
1997	3.39	112.15	4.63%	256,250	75,590
1998	3.39	116.83	4.18%	280,220	82,661
1999	3.41	120.43	3.08%	302,300	88,651

Source: IMF

At the beginning of the 1990s, Egypt was plagued by low productivity, high population growth, high inflation, and poor economic management. In 1991, the Government of Egypt set out to transform the economy from a state-owned system to a market oriented environment. The goals were to shift investments from the public to private, and increase foreign investment.

Gross Domestic Product has grown steadily since 1999, and it is mainly generated through the agricultural sector. GDP registered at approximately US$ 33.4 billion in 1991, US$ 60.4 billion by 1995, and finished out the decade with approximately US$ 88.6 billion in 1999.

Inflation has increased since the economic reforms initiated in 1991. In 1991, for example, prices were well over 19% higher than the previous year. This trend decreased steadily for most of the decade, with the exception to 1995, when inflation rose slightly to 15.74%. Inflation reached a low of 3.08% in 1999.

Based on limited available data, interest rates have been declining. Ranging from three months to one year, the T-bill yields declined from approximately 18% at the beginning of the decade to 8.80% by 1997. Additionally, the deposit rate was at 12% from 1990-1993, and has settled below 10% since 1997.

Housing Market

At the beginning of 1990, housing remained inadequate, dwellings were overcrowded, and many Egyptians lived in makeshift accommodations. Throughout the second half of the decade, however, Egypt experienced a construction boom resulting from the extreme demand for housing and the liberalization of foreign investment. Growth in the sector has and will continue to be spurred by a government plan to invest up to E£ 16 billion on new housing and E£ 13 billion on land reclamation between 1997-2003.

With an annual rate of population growth of about 2.3%, it is estimated that Egypt adds about 1.4 million new citizens each year. To maintain the current average size household of 4.8, additional 300,000 housing units are being created on net, roughly each year. In 1998, the Ministry of Housing, Utilities and New Communities estimated that about 180,000 new units were built and formally licensed. The remainder, about 120,000 units, was probably added informally, either through urban squatter construction, encroachment on agricultural land in rural areas, or by adding units on top of existing structures.

Of the 180,000 formal sector units, 122,000 or about 68% were classified as "low cost or economic" indicating that they were smaller than 60 square meters and usually occupied by households in the two lowest income ranges, with incomes under about E£ 9,000 and E£ 18,000 respectively. Based on available data, about half of these low cost units were build under the auspices of on-going subsidized housing program of the government. Approximately 33,000 units were in the middle income range, about 100 square meters in size costing about E£ 100,000 and appealing to households making about E£ 2,000 per month. Another 14,000 were in the upper-middle income range and cost about E£ 150,000-200,000.

The secondary market in existing housing units is very fragmented and informal, but is probably significant in aggregate size. It has taken on much greater significance since 1995 in response to (1) the decline in inflation and rise in real interest rates and (2) the end of rent controls on new rental contracts. These shifts have encouraged investors holding empty flats to rent them out or to sell them. Demand has been boosted by rising real incomes, particular among the urban middle class. These increases have been aided by the continuing privatization of the economy encouraging creation of more efficient enterprises and productive jobs and the ending of rent control.

Mortgage Market

The most common form of finance for non-subsidized units is all cash. Often, a deposit of 50% is complemented by installment payments scheduled over 3-5 years. Many commercial banks, and the government-owned Housing Development Bank and Egypt Arab Land Bank make some loans to individuals on commercial terms. Banks finance loans to developers that are paid off by installment of final buyers. There is no data on either of these activities, but it is considered to be less than E£ 1-2 billion per year, out of a total bank loan portfolio of LE 220 billion that is growing by E£ 40 billion a year.

The banking system in Egypt consists of more than 80 banks, which fall under control of the Central Bank and include 28 commercial and 32 investment institutions. There are three banks that specialize in housing finance: Credit Foncier Egyptien (CFE), Real Estate Arab Bank, and the Housing Development Bank (HDB). The Housing and Development Bank is state-owned, Joint stock company. It grants loans mainly to companies, housing societies, and individuals that are seeking to build apartment complexes.

Individual loans are available for as long as 7 years, at rates in the range of 14-15%. The minimum required downpayment is usually 40-50%, and the average LTV is about 20-

30%. The current rates imply a gross margin of only 3 percent over the cost of funds, which is relatively low for a developing country.

The main limitation on the housing finance market is the absence of a proper mortgage law. It is considered highly unlikely under current law that a lender can ever gain vacant possession of an owner-occupied property in the case of default. That is why most lending is in the form of financing installment payments over 3-5 years, with the builder retaining title until all payments are made.

Until recently, lenders managed to moderate their credit risk by requiring that post-dated checks be provided. Failure of a check to be covered was a criminal offense and relatively easy to prosecute. However, the law was changed in 1999 to end this practice in late 2000, and this has heightened the interest in passing a comprehensive mortgage law as soon as possible. The possibility of such as law has also been strengthened by the recent increase in interest of commercial banks, particularly the private banks in retail lending in general.

Sources and References

1. Diamond, D., Country Summary May 15, 2000
2. World Bank, www.worldbank.org
3. CIA World Fact Book 1999 - Egypt
4. International Finance Corporation
5. Housing and Development Bank – Egypt
6. Arab World Online www.awo.net
7. National Bank of Egypt
8. National U.S. – Arab Chamber of Commerce
9. USAID

Contacts

1. Duff and Phelps FINBI
   Dr. Amr Hassanein
   8 el Sad Aali St.
   Dokki, Giza Egypt
   Tel: 20-2-349-5616
   Fax: 20-2-349-6184

2. Citibank Consumer Bank
   C.P. Janardhan
   2 Abdul Kader Hamza St. 14th Fl,
   Garden City, Cairo Egypt,
   Tel: 20-2-594-2786
   Fax: 20-2-594-3061

GHANA

Economic Background

				Cedis	US$
Year	Exchange Rate Cedis/ US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	344.83	30.94	37.26%	2,031,690	5,891.86
1991	390.63	36.52	18.03%	2,427,530	6,214.40
1992	520.83	40.19	10.06%	2,802,870	5,381.54
1993	819.67	50.22	24.96%	3,674,850	4,483.33
1994	1,052.63	62.71	24.87%	4,950,380	4,702.87
1995	1,449.28	100.00	59.46%	7,417,990	5,118.40
1996	1,754.39	146.56	46.56%	10,384,500	5,919.15
1997	2,272.73	187.43	27.89%	14,133,400	6,218.69
1998	2,325.58	214.84	14.62%	N/A	N/A
1999	34,448	N/A	N/A	N/A	N/A

Source: IMF

In 1957, Ghana became the first country in sub-Saharan Africa to become liberated from colonialism. In the late 1970s, Ghana endured military takeovers that were indicative of what was to follow in the rest of the region. Recent decades, however, have consisted of great development and economic reform, including the introduction of a new Constitution in 1992.

Ghana's economy is based mainly on agriculture, which contributes more than 40% to GDP. Cocoa, timber and pineapples are the main crops. However, mining has become a rapidly growing sector as a source for foreign exchange. Additionally, the construction sector maintained a market share of GDP between 10%-20% between 1992-98.

GDP experienced an overall-increasing trend throughout the 1990s, with the exception of 1992-94. In 1991, Ghana registered an approximate GDP of US$ 6.2 billion, but by 1993, GDP had decreased to approximately US$ 4.4 billion. GDP has increased since then, and by 1997, Ghana achieved a GDP of approximately US$ 6.2 billion.

Inflation has been extremely high within the country. Based on 1995 prices, inflation registered at 37.3% in 1990, 59.5% in 1995, and in 1998 was still well over 14%. The government of Ghana offers T-bills, which have varied in rates throughout the 1990s. T-bills earned close to 30% in 1990, over 41% in 1995, and 26.4% by 1997. The labor force (by occupation) is 61% agriculture and fishing, 10% industry, and 29% services. A 1997 estimate indicates that the unemployment is very high, registering at approximately 20%.

Housing Market

Housing in Ghana is concentrated in urban settings. Approximately 50% of urban households are rented, 10% to 25% are owner-occupied, and less than 10% live in employer owned-housing. Additionally, the rent to income ratio is between 30%-40%. Currently, 25,000 units are being produced annually.

The bulk of the demand for houses is in the US$ 10,00 – US$ 12,500 ranges. Additionally, the costs of houses typically include the costs of developing the necessary infrastructure (paved roads, drains, electricity and water supply).

Expansion in the housing market is largely due to the introduction of housing finance in 1992. Private investment remains the key source of construction projects in the country. Prior to housing finance, the housing market was restricted by the following: lack of long-term finance, difficulty of establishing clear title to land, lacking infrastructure, lack of construction finance, presence of rent control, and government ownership of a large portion of the formal housing stock.

Mortgage Market

Created in the early 1990s, the Housing Finance Company (HFC) was established by the Government of Ghana, with the assistance of the World Bank. Comprised of a partnership between the Merchant Bank of Ghana, the Social Security and National Insurance Trust, and the Government of Ghana, the company was designed with the purpose of improving the quality of life for its inhabitants via affordable housing.

Since 1991, the HFC has developed a loan portfolio of 2100 cumulative originations, equaling an outstanding mortgage debt of approximately US$ 20 million. Four general housing schemes have been developed by the HFC:

- **The Pilot Scheme –** This is the most common scheme, with an interest rate of 3.5% on an indexed basis, and homes must be newly constructed. These loans have a term of up to 20 years or the number of years to retirement at age 60.
- **Employer Assisted Scheme (EAS) –** Under this scheme, employers arrange for housing for their employees. This scheme is divided into loans financed through employer subsidies, unsubsidized loans but employer organized, and employer-owned units with the option to buy.
- **Uncompleted Housing Scheme (UHS) –** This scheme entails the borrower paying off the loan without the benefit of living in the house at the same time. Repayments are fixed at 25% of the borrower’s income over 20 years.
- **Non-resident Ghanaian Scheme (NGRS) –** This scheme helps to finance a portion of the construction costs for non-resident Ghanaians. These loans are being approved in U.S. Dollars or British pounds, with 10-year terms at rates of 12.5% or 13%, respectively.

HFC Loans Outstanding, February 1998

Scheme	Number	Balance (bil. G$)	Rate	HFC Margin
Pilot	1544	23.8	3.5% indexed	1.0%
EAS	123	2.3	2.5-2.8% indexed	1.5-1.8%
UHS	188	4.7	4.5% indexed	2.0%
NRG	186	9.6	12.5% (US)- 13.0% (GRP)	4.5-5.0%
Other	48	1.5	Misc.	Misc.
Total:	**2089**	**41.9**		

Source: Cardiff Consulting Services, Inc.

Sources and References

1. World Bank, www.worldbank.org
2. CIA World Fact Book 1999 - Ghana
3. International Finance Corporation
4. Stephanie Bäeta Ansah, "Developing Housing Finance in Traditional Economies: Selected African Countries Outside of South Africa" – Housing Finance International, December 1999

Contact

1. Home Finance Company Limited
   # 35, 6th Avenue
   North Ridge, Accra
   P.O. Box CT 4603
   Cantonments, Accra, GHANA
   Tel: 242090-4, Fax: 242095
   Email: hfcomp@ncs.com.gh
   http:\\www.ghana.com.gh/hfc

KENYA

Economic Background

Year	Exchange Rate Shillings/US$	Consumer Price Index	Change In Consumer Prices	Shillings Nominal GDP (Millions)	US$ Nominal GDP (Millions)
1990	22.91	33.98	15.59%	195,536	8,534.96
1991	27.51	40.72	19.82%	221,250	8,042.53
1992	32.22	52.75	29.55%	264,967	8,223.68
1993	58.00	76.90	45.80%	333,613	5,751.95
1994	56.05	99.21	29.01%	400,722	7,149.37
1995	51.43	100.00	0.79%	465,653	9,054.11
1996	57.11	108.82	8.82%	527,967	9,244.74
1997	58.73	121.89	12.02%	627,436	10,683.40
1998	60.37	128.97	5.81%	698,958	11,577.90
1999*	70.33	N/A	N/A	756,273	10,753.20

Source: IMF; *Central Bank of Kenya

Since the early half of the 1990s, Kenya has made attempts to reform economic conditions. The nation has not experienced major ethnic and civil conflicts as most of the countries in the region; however, Kenya is plagued with problems in its infrastructure. Long-term barriers to development, for example, include high population growth, utility shortages, and recovery of agriculture lost in the 1997-98 El Nino conditions. The government of Kenya is currently attempting an aggressive shift towards privatization.

Real Gross Domestic Product was decreasing at the beginning of the decade, due to increasing inflation. Since 1993, however, GDP has experienced an increasing trend, but at a slower rate. Agriculture is the main source of GDP in Kenya, totaling an approximate 30% share. In 1990, GDP in Kenya totaled approximately US$ 8.1 billion, decreased to US$ 4.8 billion in 1993, and then increased to a decade high of US$ 11.2 billion by 1998.

Inflation was high and variable throughout the decade. In 1990, inflation was approximately 15.6%. It rose to 45.8% in 1993, then fell to0.8% in 1995. By the end of the decade, inflation in Kenya had been curtailed to single digits.

Unemployment is an extremely serious issue in Kenya, caused in part by rapid population growth. Estimates for 1998 indicate that of the 9.2 million-person workforce, 50% are unemployed. For those employed, 75%-80% work in agricultural jobs.

Interest rates vary greatly in Kenya, all of which peaked during 1993. This can be attributed to the inflation of that year. Treasury bills were as high as 49.8% in 1993 and at 22.8% in 1998. Lending rates ranged from 29%-31% between 1993-1997. Deposit rates were as high as 22.5% in 1993, as low as 9.5% in 1995, and registered at 10.8% in 1997.

Housing Market

Approximately 75% of Kenyans live in rural areas. There is a great division between the public and private housing sectors in Kenya. While the number of public residential buildings completed decreased from 167 units in 1994 to 99 units in 1996, private residential completions over the same period increased from 1,062 to 1,434 units. Although private development contributes much of the construction, high construction costs, high interest rates, and lack of serviced lands have greatly hindered additional expansion for the sector.

Both categories of completions considered, the housing stock demand of 10,000 units per year is not being met. Informal housing accounts for a substantial portion of the housing deficit, with more than 40% of Kenyans living below the poverty line. Even in low cost housing, housing costs are more than ten times the average income.

Mortgage Market

The formal lending sector in Kenya is a mere 10% of the lending activities existing within the country. The banking system consists of 53 commercial banks, 35 foreign exchange bureaus, 17 non-bank financial institutions, four building societies, and three mortgage finance companies. Commercial banks originate loans mainly for their staff members. These loans have terms that are directly related to the number of years that the employee has worked for the bank and salary level, with interest rates as high as 15%. Commercial banks also make mortgage loans to their prime customers, and commercial loans for the development of estates to be rented and sold. These two types of loans have 3 to 5-year terms, and usually yield market rates.

The three dominant institutions are the Housing Finance Company of Kenya Ltd. (HFCK), Savings and Loan Kenya Ltd. (S and L), and East African Building Society (EABS). The HFCK controls approximately 70% of the formal market share, and together, the three institutions possess a combined share of 90% of the formal mortgage market. In 1994 these three institutions had approximately Kshs 6.4 billion in mortgage assets, Kshs 8.5 billion in 1996, and Kshs 10.7 billion in 1997. Below is an example of a typical mortgage contract in the formal mortgage finance sector:

Feature	Description
Mortgage Rate	Variable rate adjusted at lender discretion. (Typically between 26%-28%).
Repayment	Amortizing, monthly repayment of principal and interest
Term	10-15 years. Average maturity is 8-10 years.
Loan to Value	70%-80%. Mortgage protection via life/fire insurance, with monthly premium throughout term.
Payment to Income	Maximum 40% of verifiable household income (can include adult children living in the house).
Prepayment	Allowed with penalty.
Default	Not serious, exception that monthly repayments are delayed. Foreclosure processes are straightforward through the courts and advertised auction sale.
Fees	Appraisal fees, application fee, legal fees, stamp duty, insurance (up to 12% of house price).

Other Requirements	Minimum account balance equivalent to two months' payments.

The informal portion of lending comprises 90% of housing finance in Kenya. It generally covers small-scale financing that is unorganized and unregulated. Sources include relatives, friends, savings associations, and employers (especially for domestic servants).

Loans originated by the informal sector are typically very small, with terms varying from one month to three years, and rely on peer and group pressure to guarantee repayment. They do not require security and/or collateral, and they are generally used for land purchase, building materials, incremental construction, and home improvement. Additionally, Kenyans may opt to borrow money through the informal sector to pay rent while unemployed.

Sources and References

1. World Bank. "Country: Kenya." Available: http://www.worldbank.org/afr/ke2.htm
2. CIA World Fact Book 1999 - Kenya
3. International Finance Corporation
4. Housing Finance Company of Kenya Ltd. Annual Report 1998
5. Central Bank of Kenya. http://www.home.centralbank.go.ke
6. Okonkwo, Ositadinma. "Housing Finance and Housing Delivery Systems in Kenya: Bottlenecks, Recent Developments and the Way Forward." Shelter Afrique, 1998.
7. Charitoneko, Stephanie; Fruman, Cecile; Pederson, Glen. "Case Studies in Microfinance: Kenya Rural Enterprise Program." August 1998.
8. Savings and Loan Kenya Ltd. – Director's Report and Accounts. December 1998. www.kenyaweb.com

MALAWI

Economic Background

Year	Exchange Rate Kwacha/US$	Consumer Price Index	Change In Consumer Prices	Kwacha Nominal GDP (Millions)	US$ Nominal GDP (Millions)
1990	2.65	23.68	11.81%	5,069.90	1,913.17
1991	2.66	26.66	12.62%	6,105.50	2,295.30
1992	4.40	33.00	23.75%	6,693.80	1,521.32
1993	4.49	40.51	22.77%	8,868.90	1,975.26
1994	15.30	54.55	34.65%	10,324.70	674.82
1995	15.30	100.00	83.33%	22,821.90	1,491.63
1996	15.32	137.60	37.60%	35,535.60	2,319.56
1997	21.23	150.18	9.14%	41,558.80	1,957.55
1998	43.88	194.85	29.75%	52,404.90	1,194.28
1999*	46.44	N/A	N/A	77,947.00	1,678.45

Source: IMF; *Reserve Bank of Malawi

Malawi is one of the world's least developed countries. Economic growth is extremely slow, and the country remains highly dependent on foreign investment and assistance from the World Bank and the IMF. Until 1994, Malawi remained under authoritarian rule, leaving the new democratic government with problems such as a growing population and poverty, inequality, and poor management of resources. The government seeks to privatize many public institutions so that it may focus funds on social sector programs.

The main source of GDP in Malawi is agriculture. Approximately 45% of GDP originates from this sector, and it contributes 90% of export revenues. GDP in Malawi has declined for the majority of the 1990s. The value of GDP increased sharply between 1994 and 1995. In 1990, GDP was at approximately US$ 1.9 billion. By 1995, GDP had reached a low of US$ 674 million, soared to over US$ 2.3 billion in 1996, and finished out 1999 at approximately US$ 1.7 billion.

Malawi has experienced uncontrollable inflation rates for most of the decade, attributed to the excessive growth in the money supply, increases in utility tariffs, and heavy government borrowing. Inflation increased from 11.8% in 1990 to more than 83% by 1995. Inflation dropped more than 46% by the following year and even further through 1997, where inflation hit a decade low of 9.1%. However, by 1999 inflation had again increased to more than 52%.

Interest rates in Malawi have generally increased throughout the past ten years. The Treasury bill rate increased from 11.5% in 1991, to over 46% in 1995. The T-bill was at 32.98% by the end of 1998. The deposit rate increased as well, from 1990 to 1995. Since then, the deposit rate experienced a small dip, and registered at 19.1 % by the end of 1998. Finally, the prime lending rate has typically remained at approximately 26%; however, it was also affected by the inflation spike in 1995.

Unemployment is a large contributor to the slow economic expansion in Malawi. 1997 estimates report that the population in Malawi had reached approximately 10.44 million. The labor force consists of approximately 3.5 million of these individuals. The government estimates that less than 25% of this number is employed. Unskilled labor is abundant, while skilled labor is scarce. High unemployment has created extreme poverty within the country.

Housing Market

Housing in Malawi is centralized in rural regions. Estimates indicate that approximately 85% of the population live in rural dwellings, consisting of either a small hut, or a mud and brick house.

Mortgage Market

Two major banks dominate the banking system in Malawi: National Bank of Malawi and Commercial Bank of Malawi. There are approximately 8 non-bank financial institutions, some of which are: the Investment Development Bank of Malawi, Malawi Rural Finance Company, Malawi Development Corporation, and the New Building Society.

The New Building Society is the oldest mortgage financing institution in Malawi. It possesses a majority of the mortgage financing market. In addition to mortgage loans, the institution offers working capital loans, takes deposits, and provides properties for lease. Its primary goal is to contribute to the generation of residential and commercial properties in Malawi. Below is a chart of the New Building Society's originations over the past 5 years.

New Building Society
Loan Originations and Value
1994/95 – 1998/99

	Number	Value K$ (Millions)
1994/95	2518	27.9
1995/96	2379	21.6
1996/97	2117	38.6
1997/98	2246	156.4
1998/99	4148	103.6

Source: The New Building Society

New Building Society
Loan Size and Distribution
FY 1998/99

Loan Size	Number of Mortgages
K0 – K300,000	3674
K300,001 – K500,000	235
K500,001 – K1,000,000	184
K1,000,001 – K2,000,000	39
K2,000,001 – K3,000,000	6
Over K3,000,000	10

Source: The New Building Society

During fiscal year 1998/99, the New Building Society originated 4,148 mortgage loans for a value of K$ 103.6 million. Of these loans, more than 88% were less than or equal to K$ 300,000 (equivalent to approximately US$ 6,460). The loan size distribution is illustrated in the chart above. Since 1993, these small loans have grown in number due to the fact that the Society provides financing to more lower- income groups than its previous lending.

Sources and References

1. World Bank. "Countries: Malawi." Available: www.worldbank.org
2. CIA World Fact Book 1999 - Malawi
3. Chalira, Z.R. Dr. "The New Building Society: Past Performance and Prospects for the Future – Malawai" November 1998.
4. "Malawibiz.com, Your Gateway to Malawi, Country Report." Available: http://www.malawibiz.com/infocountrep.html
5. Reserve Bank of Malawi. Available: http://www.rbm.malawi.net/
6. EAGER Regional Workshop on the Implementation of Financial Programming. June 10-11, 1999. Lilongwe, Malawi. Available: http://www.eagerproject.com/malawiconf.html

MAURITIUS

Economic Background

Year	Exchange Rate Rupees/US$	Consumer Price Index	Change In Consumer Prices	Rupees Nominal GDP (Millions)	US$ Nominal GDP (Millions)
1990	14.32	71.01	13.49%	39,275	2,743
1991	14.79	75.99	7.00%	44,316	2,996
1992	17.00	79.51	4.64%	49,633	2,920
1993	18.66	87.88	10.52%	56,570	3,032
1994	17.86	94.31	7.32%	63,043	3,530
1995	17.66	100.00	6.03%	69,082	3,912
1996	17.97	106.55	6.55%	77,310	4,302
1997	22.27	113.83	6.83%	86,428	3,881
1998	24.78	121.59	6.81%	96,985	3,914
1999	25.47	129.99	6.91%	105,575	4,145

Source: IMF

Mauritius has experienced growth levels that have lifted it to one of the world's middle-income countries. Its strengths have been a stable democracy, a stable economy, and a great deal of social progress. Although economic performance remains good by international standards, growth has slowed.

Exports, tourism, and the financial and business sectors have driven economic expansion. GDP was approximately US$ 2.7 billion at the start of the decade, and increased steadily through 1996, when GDP reached US$ 4.3 billion. Between 1997 – 1998, GDP experienced a slight decline, but again increased to over US$ 4 billion by the end of 1999. The construction sector generated 6% of GDP in 1998.

Inflation was volatile throughout the first half of the 1990s; however, it has remained fairly stable since 1995. Peaking at 13.5% in 1990, inflation remained between 6 % to 7% for the second half of the decade. Interest rates varied throughout the 1990s. Money market rates registered just over 10% in 1999. By 1999, the deposit rate was at approximately 10.9%. The average lending rate in 1997 was 13.9%, and increased to 14.4% by 1999.

Unemployment among the 514,000-person workforce in Mauritius is growing. Estimates for 1998 indicated the unemployment rate was 6%, up from 2% in 1996. The labor force is concentrated in construction and industry (36%), services (24%), and agriculture (14%).

Housing Market

The last housing census in Mauritius was conducted in 1990, and it revealed many changes to the housing market since the previous census of 1983. For example, the number of households increased from 206,400 in 1983 to 236,100 in 1990. Additionally, the average number of rooms per household increased from 3.5 to 3.9 during the same period. In 1990, approximately 75% of the housing stock were owned, as compared to 66.9% in 1983, which was directly related to the decrease in rentals. The percentage of rented housing stock decreased from 17.8% in 1983 to 14.8% in 1990.

Mauritius is mainly a rural country, with less than 14% of the total land characterized as urban. The population density in 1998 was measured at 572 people per square Km. Construction is a thriving sector. In 1998, approximately 8,302 new building permits were issued in Mauritius, compared with 7,097 in 1997 and 6,108 in 1990. Additionally, more than R5 million was invested in the construction of residential buildings during 1998, for 5.2% of GDP. The construction price index was at 113.4 by 1998, up from 109.5 in the previous year.

Mortgage Market

Although most financing in Mauritius originates from personal savings, the country does have institutional sources. As of 1999, in addition to the Bank of Mauritius (which serves as the nation's Central Bank), there were 10 commercial banks, 10 offshore banks, and at least 7 non-bank financial institutions (NBFIs).

These non-bank institutions possess the majority of the mortgage lending market. In fact, the Mauritius Housing Company Ltd. (MHC), the single largest mortgage lender in the country, is a NBFI. Over two-thirds of the company's portfolio consists of lower income loans.

National statistics indicate that mortgages are offered at fixed rates, with varying terms. Average bank lending rates were at 13.9% in December of 1997, 14.0% in the same period 1998, and 14.4% in 1999. MFC's rates were much lower, ranging from 10 – 12%, reflecting government subsidies for housing.

Mauritius has a small secondary market. The Bank of Mauritius had 839 transactions involving the sale of loans through April of 1999. This number jumped to over 1200 by the same period in 2000. The average yield on bills sold in the secondary market was at 11.6% by the end of April 2000, down from 12.7% at the end of April 1999.

Sources and References

1. World Bank, www.worldbank.org
2. CIA World Fact Book 1999 - Mauritius
3. Ministry of Economic Development and Regional Co-Operation, Central Statistics Office. Available: http://ncb.intnet.mu/cso.htm
4. Ministry of Economic Development and Productivity and Regional Development, "Construction Price Index." Available: http://ncb.intnet.mu/medrc/cpi/
5. Development Bank of Mauritius, Ltd. Available:
6. http://www.web-ltd.com/dbm/dtml/accueil.htm
7. Bank of Mauritius. Annual Report and Audited Accounts 1998-99. Available: http://bom.intnet.mu/Anrep99/AR991p1.htm
8. Mauritius Chamber of Commerce and Industry. Investment and Business in Mauritius: A Presentation. Available: http://www.mcci.org/invest/services/banks.htm

MOROCCO

Economic Background

				Dirhams	US$
Year	Exchange Rate Dirhams/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Billions)	Nominal GDP (Billions)
1990	8.04	103.69	6.91%	213.99	26.62
1991	8.15	98.28	7.99%	242.36	29.74
1992	9.05	100.11	5.74%	242.91	26.84
1993	9.65	91.84	5.18%	249.22	25.83
1994	8.96	92.87	5.14%	279.32	31.17
1995	8.47	100.00	6.12%	281.70	33.26
1996	8.80	97.95	2.99%	319.34	36.29
1997	9.71	89.66	0.89%	318.35	32.79
1998	9.26	88.94	2.91%	341.38	36.87
1999	10.09	87.11	N/A	N/A	N/A

Source: IMF

GDP in Morocco experienced a fairly steady trend throughout the 1990s. Manufacturing is the country's largest contributing sector to GDP (33%), with agriculture as the second largest (14%). GDP was at US$ 26.6 billion at the beginning of the decade, increasing to US$ 36.2 billion in 1996. Due to a drought in 1997, GDP contracted, and then resumed growth in 1998, when it registered at US$ 36.8 billion.

Inflation in Morocco remained comparatively lower than in other developing countries. The highest level of inflation was at 7.99% during 1991, decreasing to 5.14% three years later. By the end of the decade, inflation was just below 3%.

Unemployment is an important concern in Morocco. With a labor force of over 11 million in 1997, approximately 19% were unemployed. By occupation, the labor force is 50% agricultural, 26% services, 15% industry, and 9% other.

Morocco has problems similar to other developing countries, with government spending, constraints on private sectors, and inflation at the top of the list. Recent economic policies have focused on tight economic and fiscal management, reformation of public sector and private sector expansion and development of human and social programs. As a result, tariffs have been lowered, the banking system has been reformed, there are new investment guidelines, the tax system has been revised, import restrictions have been eased, and government spending has declined.

Housing Market

As of 1994 there were 4.11 million dwelling units, of which 2.28 million were in urban areas. The population of the country was 27 million. Population density is quite high in urban areas with a mean of 6.9 inhabitants per dwelling unit. The Ministry of Habitat estimated new demand for housing at 184,000 units per year while only 60 to 80,000 are being produced. For example in 1997 there were 82,681 units constructed and 76,900 units finished.

With a population density of approximately 61 people per square kilometer, over 50% of the population live in urban areas.

Mortgage Market

Banking activities have been liberalized in Morocco. Major reformations include the abolition of direct credit control, liberalization of lending rates, elimination of all mandatory bank credit allocation, and revised banking law applicable to all bank and non-bank credit institutions. As of May 1998, all banks and societies of credit were allowed to make housing loans.

The primary financing institution is Credit Immobilier et Hotelier (CIH). CIH was the exclusive financier of the housing sector until 1993 and accounts for 57% of the market as of 1997. The other major housing lender is the popular Central Bank, which holds 18% of the market. The free sector has an approximate 16% market share with 9% for two societies of real estate credit.

The mortgage sector in Morocco is quite small, estimated to be 4% of GDP with 0.6% of GDP in annual new production. The private, informal sector remains the predominant source of funding. CIH loan terms range up to 15 years with rates in 1998 of approximately 11% or 2.25% over treasury bills. Bank loans have shorter terms and higher margins. Loans are funded with short-term deposits.

The government has prepared a securitization law and supports the development of longer term financing sources for housing.

Sources and References

1. World Bank, www.worldbank.org
2. CIA World Fact Book 1999 - Morocco
3. Credit Immobilier et Hotelier. Available: http://www.m2mgroup.com/m2mgroup.com/ref
4. Sladden, Frederik. US-Arab Tradeline. Arab World Online. “Foreign Investors Flock to Moroccan Sell Offs.” January 21, 2000. Available: http://www.awo.net/newspub/pubs/tradelin/000121a.asp
5. “Morocco’s Voyage From Feudal to Modern.” Economist. Available: http://www.economist.com/editorial/freeforall/current/ir9104.html

SOUTH AFRICA

Economic Background

Year	Exchange Rate Rand/US$	Consumer Price Index	Change In Consumer Prices	Rand Nominal GDP (Millions)	US$ Nominal GDP (Millions)
1990	2.56	140.22	14.40%	289,816	113,209
1991	2.74	131.57	15.28%	331,980	121,161
1992	3.05	127.26	13.92%	372,227	122,042
1993	3.40	111.12	9.56%	426,133	125,333
1994	3.54	102.19	9.01%	482,120	136,192
1995	3.65	100.00	8.59%	548,100	150,164
1996	4.68	84.92	7.36%	614,942	131,398
1997	4.87	78.78	8.55%	680,212	139,674
1998	5.86	66.17	6.89%	737,813	125,907
1999*	6.15	69.61	5.20%	747,405	121,529

Source: IMF; * Reserve Bank of South Africa

South Africa is a middle-income, developing country with available resources, modern infrastructure, and well-developed service sectors. However, unemployment, extreme poverty, crime and corruption are current problems left behind from years of apartheid. The government is committed to implementation of programs that will create open markets, privatization, and a favorable investment climate.

GDP growth levels have fluctuated throughout the past ten years. Minerals (mainly gold and diamonds) and energy resources have remained the key contributors to GDP. In 1990, GDP registered at approximately US$ 113 billion, and increased steadily through 1995, when it peaked at approximately US$ 150 billion. By 1998, a decreasing growth rate left GDP at US$ 126 billion. Growth in 1999 was somewhat greater than expected at 1.3%.

South Africa has experienced a decreasing trend in terms of inflation, due in part, to the tight policies of the Central Bank. In 1990, prices were approximately 14.4% higher than the previous year, and by 1995, inflation had dwindled to 8.6%. According to IMF statistics, inflation levels for 1999 registered at a low of 5.20% higher than the prices of the previous year.

Unemployment is a major contributor to the slow economic growth in South Africa. Estimates indicate that approximately 30% of the 15 million people in the work force are unemployed. High unemployment is a contributing factor to the extreme poverty in the country, and important to mention. Although the country is considered middle-income, approximately 13% of the population lives in what are considered “first-world” conditions, while 53% of the population lives in “third-world” conditions (and only 25% of these individuals have access to electricity and/or running water).

Interest rates fluctuated greatly in the 1990s. The money market rate has seen interest rate as high as 19.5% in 1990 and as low as 10.2% in 1994, finishing with 17.1% in 1998. Treasury bills were at 17.8% in 1990, decreased to 10.9% in 1994, and then rose to 16.5% by 1998. Additionally, rates for government bonds have ranged from 14% to 16.3% during the 1990s.

Housing Market

In 1995, the population in South Africa was well over 41 million, and has continued to grow at a rate of approximately one million people per year. This growth rate greatly exceeds the growth rate of available housing in the country. In 1995, it was estimated that more than 8 million households, with an average household size of 4.97 people, existed in South Africa. The table below illustrates monthly income distribution figures for the households in South Africa.

Income Category (R $)	Percentage	# of Households (Millions)
0 – 800	39.7%	3.30
800 – 1,500	29.8%	2.41
1,500 – 2,500	11.8%	0.98
2,500 – 3,500	5.6%	0.46
3,501 and higher	13.9%	1.15
Total:	**100%**	**8.3**

Source: South African Department of Housing

These figures indicate that approximately 68.8% (or 5.71 million) of the households in South Africa have an income of less that R$ 1,500 per month (approximately US$ 410 per month). Moreover, the population is mainly concentrated in urban areas (66%), leaving 34% of the people in rural regions.

Types of Housing. There are various types of housing within South Africa. Urban housing consists of houses, flats, townhouses, and retirement homes. Hostels are another type of housing found within the country, which are low-cost, community-based housing settlements. Next, there are squatter houses, which are located on the periphery of towns and cities, and in the backyards of formal housing. Rural housing consists of a combination of formal and informal housing, both of which have inadequate resources and/or infrastructure. Finally, farm worker housing are hostel-type structures. They are among the worst in terms of living conditions, and they are typically seasonal.

Housing Stock Deficit. Three major factors are contributing to the housing stock deficit: (1) high rates of population growth, (2) lack of construction finance, and (3) the fact that the construction sector and building material supply industry are emerging from and economic recession and production slump. Building costs in 1999 were estimated to be 7.5% higher than 1998. Additional causes for the housing deficit are the lack of land policy, difficulty in land identification, difficulty in land assembly, land invasions, and complications with land titles and planning.

It is estimated that the shortage of housing in South Africa is increasing at a rate of 178,000 units per year. The consequences are overcrowding and increased squatter settlements.

Housing Prices. By the end of the first quarter of 1999, housing prices were approximately 2.3% higher than the same period of the previous year, leaving the average price of a house (80-350sq. m) at R 203,800 (US$ 33,800). Calculated on a quarterly basis, however, prices were generally 0.7% lower than the fourth quarter of 1998. This was the first quarterly decline in housing prices since 1992, reflecting relatively high interest rates.

Mortgage Market

Prior to the 1980s, private ownership of housing was politically restricted to the European population. Hence, mortgage banking is not new to South Africa; however, new developments in the mortgage finance sector have made formal credit available to lower-income households, something that financing institutions have traditionally avoided.

Mortgage Products. The following are several mortgage products that can be found in the South African mortgage market, each with varying rates and terms:

1. **Mortgage Loan –** Referred to as a Mortgage Bond, made by commercial banks to the conventional moderate to high income market, these loans are secured by a lien on the house, have variable interest rates, 20 to 30-year terms, no/low prepayment penalties, and require a 20% or less down-payment.
2. **Access Bond –** A variant of the mortgage loan, this product is designed to renew borrowing up to the maximum amount of initial principal.
3. **Affordable Housing Loan –** These loans are written up to the full cost of the house plus transaction costs. However, this loan must also have coverage of 20% of the total loan amount with one (or combination) of the following: (1) pledge of pension fund, (2) employer guarantee, or (3) purchase of guarantee for up to half the loan amount from the Home Loan Guarantee Company. With terms of up to 20 years, they have flexible interest rates and payment-to-income ratios that do not exceed 35% of the total household income.
4. **Micro Loan –** These loans are very small in size (R 9,000 for example), may carry a fixed interest rate, and are secured by the borrower's pension fund. They are generally used for home improvements, but can also be combined with government subsidies to increase the standard of housing they can achieve.

Banking System. In terms of mortgage loans, the South African banking system is centered on four major banking institutions, which together, comprise approximately 85% of the total mortgage market. Below is a table that illustrates the market shares of each of the major financial institutions. As of December 1998, the banking system had a total of R 189.4 billion in housing loans outstanding representing 38% of bank assets and approximately 26% of GDP.

Institution	Servicing Portfolio	Conventional Mkt.	Low-income Mkt.

		Share	Share
ABSA Group	R64 billion	34%	25%
Standard Bank	R32 billion	22%	6%
First National Bank	N/A	6%	5%
NEDCOR	R32 billion	43%	18%

Source: IUHF

In addition to the banks, South Africa enjoys a second-tier banking system, which is comprised of Home Finance Institutions (HFIs) such as Mortgage Indemnity Fund, SERVCON, National Home Finance Corporation (NHFC), NURCHA, and Gateway Home Loans. Most of these institutions were developed after the 1994 signing of the Record of Understanding, which was designed to bring credit to the lower-income housing market.

1. **Mortgage Indemnity Fund (MIF)–** This HFI was created to eliminate the banks' risk of being unable to repossess properties due to breakdown of law and order. Through MIF's existence, 15 financial institutions have been accredited, and 140,000 mortgage bonds have been granted, valued at over R10 billion (R4.1 billion of which has gone to the lower-income market.)
2. **SERVCON Housing Solutions –** This HFI was also designed to deal with repossessions, and currently manages over 33,000 non-performing loans, valued at over R1.3 billion. The company offers various options to the defaulting borrower, and the government guarantees 50% of the cost of the portfolio.
3. **The National Housing Finance Corporation (NHFC) –** NHFC was designed to explore ways to create housing opportunities for low and moderate-income households, and is essentially a wholesale financier.
4. **National Urban Reconstruction and Housing Agency (NURCHA) –** NURCHA was designed to facilitate access to credit for subsidy-linked housing projects, sharing the risk with financial institutions and developers. The goal is to encourage housing development.
5. **Gateway Home Loans (Ltd.) –** Gateway is a subsidiary of NHFC, designed to help individuals obtain a larger micro loan to purchase a house, instead of the sole use of home improvements. Retirement funds secure half of the loan, and default insurance secures the other 50%. The key point to mention is that lenders will not have to carry these high-risk, micro loans on their balance sheets. Instead Gateway will pool the loans into a portfolio that it secures. The result is a secondary market in which these loans will be sold to a third party.

Although personal/family savings remains a substantial source of home funding in South Africa, the mortgage financing sector is experiencing expansion as it continues to take action in extending credit to the lower-income market.

Policy developments are aimed in several directions. The main goals are to regulate the market, which would eliminate fraud, lowering the barriers of entry to the financing market, and to eliminate some of the risk of non-performing loans. On the social side, government seeks to educate the public and making credit more accessible.

S.A. Home Loans announced in 1999 that it was introducing a home-loan securitization operation. It has been aggressively originating mortgage loans but as of early 2000 had not issued an MBS. In 1988, the former United Building Society securitized R 250 million of mortgage loans, so this type of business operation is not new to South Africa.

Contributed by Mary R. Tomlinson
The Banking Council, South Africa

Sources and References

1. World Bank, www.worldbank.org
2. CIA World Fact Book 1999 – South Africa
3. International Finance Corporation
4. Banking Council of South Africa, South African Banking Review, 1997, 1998
5. Tucker, Robert, "The Retail Dimension: Rethinking the Provision of Retail Banking Services to Low Income Communities, Housing Finance International, December 1999
6. Tomlinson, M., Ensuring Mortgage Repayment in South Africa, Housing Finance International, June 1999
7. Tomlinson, M., Mortgage Bondage? South Africa's Financial Institutions and Low-Cost Housing Delivery", Housing Finance International, June 1998

Contacts

1. Banking Council of South Africa
   17 Harrison Street
   10th floor
   PO Box 616174
   Marshalltown 2107
   South Africa
   Tel: 27.11.838.4978
   Fax: 27.11.836.5509
   http://www.banking.org.za.

2. Gateway Homeloans Ltd.
   Gateway Home Loans Isle of Houghton
   II Boundary Road Old Trafford 3
   3rd floor
   Houghton
   South Africa
   http://www.gatewayhomeloans.co.za

Israel

Economic Background

				New Sheqalim	US$
Year	Exchange Rate currency/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	2.02	54.73	17.17%	105,831	52,392
1991	2.28	65.14	19.01%	134,855	59,147
1992	2.46	72.92	11.95%	161,738	65,747
1993	2.83	80.90	10.94%	186,576	65,928
1994	3.01	90.87	12.33%	224,838	74,697
1995	3.01	100.00	10.04%	261,586	86,906
1996	3.19	111.28	11.28%	304,682	95,512
1997	3.45	121.29	9.00%	339,992	98,548
1998	3.80	127.89	5.43%	370,424	97,480
1999*	4.14	134.54	5.20%	409,200	98,800

Source: IMF; *Bank of Israel

Israel has a technologically advanced market economy with substantial government participation. The influx of Jewish immigrants from the former USSR topped 750,000 during the period 1989-99, bringing the population of Israel from the former Soviet Union to 1 million. This is one-sixth of the total population, adding scientific and professional expertise of substantial value for the economy's future. The influx, coupled with the opening of new markets at the end of the Cold War, energized Israel's economy, which grew rapidly in the early 1990s. But growth began slowing in 1996 when the government imposed tighter fiscal and monetary policies, and the immigration bonus petered out. Those policies brought inflation down to record low levels in 1999.

In the second half of 1999, activity accelerated in most industries, and an economic recovery began. Much of the acceleration was led by exports, while the response of GDP to the expansion of demand lagged behind that of imports of goods and services. The rate of price increases was below the 1999 inflation target, and inflation expectations declined. The foreign-currency market remained relatively calm, the exchange rate vis-a-vis the currency basket was administered within the band, and there was slight nominal shekel depreciation. At the beginning and end of the period reviewed, the nominal interest rate was reduced by a cumulative 0.8 percentage point, but the real interest rate remained relatively high. The labor market remained slack, as it has been for a long time. In November 1999, the unemployment rate rose to an annual peak of 9.2%. Nevertheless, various indicators suggest that economic recovery will work to reduce this rate.

Housing Market

The population of Israel (1996) was 5.76 million of which 90.9% was urban. Population growth (average, 1948 – 1996) was 4.1% of which 1.9% was due to net migration. There are 1.59 million households (1996). Housing starts in 1998 were 42,900, down somewhat from earlier years of the decade. Israel has a high homeownership rate.

Housing and construction have been major factors in the economic development of Israel. Throughout its history, Israel has absorbed large number of immigrants. Immigration preceded the establishment of the State of Israel – waves of Jewish refugees flooded the country during and after World War II, but the proportions grew afterwards. Since its birth in 1948 and until the end of 1998, some 2.7 million people immigrated to Israel.

Mortgage Market

Housing loan origination and servicing are handled in Israel almost exclusively by specialized mortgage banks. Most of them are wholly or partially owned by Israel's large, general-purpose banks. Nine such mortgage banks operate today. Only two of which are unaffiliated with a general-purpose bank. Beside the mortgage banks, two general-purpose banks and several insurance companies are active in housing lending, but their market share does not exceed 2-3%. The home financing market is highly concentrated. The three leading mortgage banks share 75% of the home market in terms of outstanding debt. The largest mortgage banks are as follows:

- Bank Tfachot
- Bank Mishkan
- Bank Leumi LeMashkantaot
- Bank Discount Mashkantaot
- Bank Yerushalaim
- Bank Ben Leumi Mashkantaot

In 2000, Bank Mishkan acquired Bank Tefahot.

Market Information

Year	Housing Starts	Population	Mortgage Originations*
1990	42.4	4,660,000	8839
1991	83.5	4,950,000	11,138
1992	46.0	5,120,000	11,012
1993	35.8	5,260,000	13,326
1994	43.6	5,400,000	18,152
1995	70.0	5,540,000	22,256
1996	55.9	5,700,000	27,143
1997	50.9	5,830,000	29,840
1998	42.9	5,970,000	

* Mortgage Banks; Source: Nachmany

A unique feature of the Israeli mortgage market is the linkage of the typical housing loan to the Consumer Price Index (CPI). In order to overcome the affordability and volatility problems of traditional loans in an unstable monetary environment, the CPI-indexed loan specifies a real rather than nominal rate and indexes the balance for inflation. The differences between indexed and non-indexed loans emerge with changes in CPI: whereas in the case of a regular loan, the original amortization schedule will stay unchanged. In the case of a linked loan the current payment amount and balance due will change every month, even after accounting for the monthly principal payment.

The most common housing loan is a 20-year, level-payment, fixed rate loan. Longer terms are usually available but with an adjustable rate mechanism, which allows for interest rate resets at intervals of one, two-and-a-half or five years. Adjustable rate loans are comparatively young. They were first introduced in 1989, and until mid-1996, they have comprised only about 10% of the market volume. A sharp increase of interest rates in 1996 and expectations that the high rates were temporary caused a surge in the demand for adjustable rate loans. Their share of total origination increased to about 50%. Most housing loans in Israel carry a prepayment penalty. According to the new regulation, in case of a prepayment the borrower will pay the lender bank a penalty that will compensate the bank for most of the decline of future interest income due to a decrease of interest rate. The average loan size is rather small in Israel. With no tax benefits attached, people have no tax incentive to borrow.

Interest Rates

Year	Treasury Bill Rate	Deposit Rate	Lending Rate
1990	15.08%	14.40%	26.45%
1991	14.50%	13.89%	26.43%
1992	11.79%	11.29%	19.94%
1993	10.54%	10.44%	16.44%
1994	11.77%	12.19%	17.45%
1995	14.37%	14.08%	20.22%
1996	15.54%	14.48%	20.68%
1997	13.88%	13.07%	18.71%
1998	12.17%	11.00%	16.18%
1999	12.60%		16.50%

Source: IMF

To finance their lending, the mortgage banks need long-term funding. The main sources of such funds in Israel have been institutional investors, especially provident funds and insurance companies. Provident funds are long-term investment funds, operated mainly by general-purpose banks, through which households can enjoy certain tax benefits on their savings. These tax benefits are conditional on a 15-year minimum duration of the account. Because of the unique, long-term preferences of their depositors, the funds became a natural investor in mortgage banks. The vast scale and continued growth of these funds have enabled them to provide most of the cash needed by the mortgage banks during the last decade. The mortgage banks are approaching the point where their funding resources will be exhausted. The rapid growth of outstanding debt has not been matched by a concomitant growth of provident funds' assets, and the banks are therefore likely to find themselves reliant on increasingly limited resources. Without additional reforms that unbind new investors, particularly pension funds and insurance companies, the banks are expected to face a shortage of funds.

A major obstacle to the development of mortgage lending in Israel has always been the inadequacy of property registration. Even today, a considerable portion of the housing stock is not formally registered, and changes of ownership are documented on various legal documents that are not registered in a central roll. Another difficulty arises from the government's promotion for nearly universal home ownership, which necessarily includes prospective borrowers who are low income, immigrants with no credit record or young families without employment history. This leads to a relatively low credit profile of the average borrower in Israel as compared to its counterpart in other developed countries.

A common goal of the government's various housing programs since 1971 has been to enable potential homebuyers to purchase units. Instead of taking responsibility for the construction and the provision of homes, the government moved to supporting the demand for housing by providing the financing at preferential terms. Using alternating sets of criteria to define eligibility for the programs ('Eligible Borrowers') and the terms of the aid, the Ministry of Construction and Housing concentrated on providing subsidized credit to selected population groups. These were mainly immigrants, "young couples", people living in overcrowded conditions and families acquiring homes in development regions.

Sources and References

1. IMF: International Monetary Fund, Statistics 2000
2. Bank of Israel: Recent Economic Developments
3. Nachmany, Doron, "Housing Finance in Israel", Housing Finance International, June 1999

Jordan

Economic Background

Year	Exchange Rate Dinar / US$	Consumer Price Index	Change In Consumer Prices	Dinar Nominal GDP (Millions)	US$ Nominal GDP (Millions)
1990	1.51	81.22	16.19%	2,668.30	1,767.09
1991	1.47	87.84	8.16%	2,868.30	1,951.22
1992	1.47	91.35	4.00%	3,537.10	2,406.19
1993	1.44	94.38	3.32%	3,858.70	2,679.65
1994	1.43	97.70	3.52%	4,246.90	2,969.86
1995	1.43	100.00	2.37%	4,560.80	3,189.37
1996	1.41	106.50	6.50%	4,711.00	3,341.13
1997	1.41	109.74	3.04%	4,945.80	3,507.66
1998	1.41	114.60	4.43%	5,236.60	3,713.90
1999	1.41	N/A	N/A	5,723.50	4,059.22

Source: IMF; *Central Bank of Jordan

Jordan is a small, Arab country with limited supplies of water and other natural resources such as oil. After averaging 9% in 1992-95, GDP growth averaged only 2% during 1996-99. In an attempt to spur growth, King Abdallah has undertaken limited economic reform, including partial privatization of some state owned enterprises and Jordan's entry in January 2000 into the World Trade Organization (WTO). Debt, poverty, and unemployment are fundamental, ongoing economic problems. Inflation has declined significantly, and it was estimated to be less than 3% by the end of the year. The official unemployment rate is 15%, but the actual rate is estimated to be as high as 25%-30%.

Year	Loans and Advances	Time Deposits	Discount Rate
1995	10.65%	7.68%	8.5%
1996	11.25%	8.5%	8.5%
1997	12.25%	9.18%	7.75%
1998	12.89%	8.33%	8.00%
1999	12.67%	7.89%	9.0%

Source: Central Bank of Jordan

Housing Markets

The population of Jordan was estimated at 4.9 million inhabitants in 1999. The number of permits issued from 1999-1995 were as follows:

Year	New Housing Permits	House Cost Index (1997=100)
1995	18,558	94.3
1996	16,803	99.2
1997	14,838	100.0
1998	15,971	101.8
1999	15,371	102.6

Source: Central Bank of Jordan

Mortgage Market

The residential mortgage market in the Hashemite Kingdom of Jordan has expanded considerably since 1997, when the Government removed the privileges of the Housing Bank in mortgage lending and enabled the entry of other banks. Nine commercial banks now offer mortgage loans. Although the Housing Bank continues to dominate the market, several other banks have well-established portfolios, while others plan to expand their mortgage lending beyond their own employees in the next year. Nine commercial banks active in mortgage lending report planned mortgage loans for 1999 of over 70 million Jordanian Dinars (JD), equivalent to nearly US$ 100 million.

The planned production of residential mortgage loans by banks in 2000 represented 0.8% of planned GDP, whereas their overall stock represented 4.8 % of GDP by the end of 1999. This level of new production exceeds past levels of the Housing Bank as a sole lender, before reforms were completed. If adding loans of Military Funds, Teacher Funds and Housing and Urban Development Corp., the overall stock of mortgage loans is estimated at JD 600 million, or 11% of GDP. Whereas the planned production of mortgage loans in 2000 may reach JD 76 million, or 1.3% of GDP.

The Jordan Mortgage Refinance Company (JMRC) was created in 1997 to provide liquidity facilities to commercial banks engaged in residential mortgage lending through refinancing loans over-collateralized by sound, residential mortgages. Since its establishment JMRC has completed 13 refinancing operations, totaling nearly JD 22 million (US$ 31 million) with six commercial banks. Although initially funding these refinance loans through a loan from the World Bank, JMRC is now attracting its own funding through the issuance of bonds in the Jordanian market. Through 1999JMRC had issued two 3-year bullet bonds for JD14.8 million (US$ 21 million).

The rules inherent in the Ottoman Law limiting long-term debt still present a major constraint for most banks. The rule is that the total interest paid over the term of the loan cannot exceed the principal. Even with loan terms of 10-years, banks could exceed the Ottoman Law rules on accrued interest, under a scenario where variable credit rates rise along with the cost of funds.

One of the lenders' concerns is the potential difficulty associated with mortgage foreclosure processes. Before mortgage lenders can actually foreclose on a property, they are required to obtain the authorization of the CBJ and the Office of the Prime Minister. Such authorizations are not automatic and are frequently subjected to lengthy delays.

Since 1995, the Jordan Loan Guarantee Corporation (JLGC) has been offering to insure 75 percent of the outstanding balances of approved mortgage loans, for an annual fee of 75 basis points applied to a ceiling agreed between a participating financial institution and JLGC. By the end of 1997, this program had received relatively little interest, as only JD 0.6 million in mortgage loans had been guaranteed. By November 19, 1998, however, the ceilings had reached JD 12 million as more banks entered into partnerships with JLGC now offering a mortgage insurance product.

As of mid-1999, mortgage interest rates, also taking into account the separate 1% servicing fee, ranged between 14% and 15%. The Arab Land Bank and the Jordan Gulf Bank have proposed lower mortgage rates, 13% and even 12% p.a. in some cases, for long-term mortgage housing loans, thus reflecting the impact of wider competition on reducing margins. Modest declines of mortgage rates may be expected across most other banks, both resulting from lower deposit rates and greater competition for mortgage lending.

Most banks have conservatively begun mortgage lending by targeting low-risk production and offering limited terms. Most offer loan terms between 5 and 10 years, but the Arab Land Bank and Jordan National Bank will offer terms as long as 15 years in some cases. Minimum down-payment ratios are between 20% and 30%, but in practice they are usually higher. Other restrictions include a maximum loan amount of JD 50,000, automatic payroll deductions, and/or several external guarantors.

Sources and References

1. World Bank. Available: www.worldbank.org
2. Central Bank of Jordan. Available: http://www.cbj.gov.jo/
3. Jordan Mortgage Refinance Corporation

Turkey

Economic Background

				Turkish Lira	US$
Year	Exchange Rate Lira/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	2,930.07	5.50	60.31%	392,580,000	133,983.15
1991	5,079.92	9.12	65.97%	638,130,000	125,618.12
1992	8,564.43	15.52	70.07%	1,129,410,000	131,872.17
1993	14,472.50	25.77	66.10%	2,062,190,000	142,490.24
1994	38,726.00	53.16	106.26%	3,868,430,000	99,892.32
1995	59,650.00	100.00	88.11%	7,762,460,000	130,133.45
1996	107,775.00	180.35	80.35%	14,772,100,000	137,064.25
1997	205,605.00	334.96	85.73%	28,835,900,000	140,249.02
1998	314,464.00	618.48	84.64%	51,625,100,000	164,168.55
1999	541,400.00	1019.68	64.87%	77,374,805,000	142,916.15

Source: IMF; *Central Bank of Turkey

Turkey experienced strong, economic growth over the last five years. Real GDP averaged 6.5% annual growth from 1995 to 1998. However, adversely affected by Russia's economic crisis and a devastating earthquake in 1999, GDP fell about 5%. The economic loss of the 1999 earthquake, which hit northwestern Turkey, is estimated to have reached between $ 7.5 to $ 12.2 billion, with industrial production falling to 30% of capacity. The economy has since rebounded and GDP growth for 2000 is estimated at 5.5%.

Turkey's largest economic sector is agriculture, making up 18% of GDP; however, the textiles and clothing industry are the largest exporting groups, together representing 40% of exports. The unemployment rate for 1999 was estimated at 7.3% of the labor force.

Inflation is a big concern in Turkey, as inflation over the last decade has averaged 73.7%. The Turkish government has introduced structural reforms to reduce budget deficits in order to reduce inflation. For 1999, inflation was estimated at 65%. The government's inflation target for 2000 is 35% and in the single digits for 2002.

Housing Market

The rapid urbanization of the population over the last twenty years has created housing shortages. In 1998, the total housing shortage was approximately 500,000 units. The earthquake in 1999 amplified the need for new housing. The total number of destroyed homes reached over 100,000. It is estimated that the amount needed for the overall reconstruction and restoration of homes and buildings is between $3 – $6 billion. The government has tried to alleviate the shortage of housing by building new prefabricated housing units in the earthquake region, offering subsidies to encourage house construction in this region, and offering low interest loans to real estate developers.

The total number of existing houses and dwellings stood at 14,500,000 in 1998. The average housing unit was 130.7 square meters.

Year	Housing Starts
1992	472,777
1993	548,120
1994	523,791
1995	507,623
1996	454,295
1997	464,117
1998	414,573

Source: State Institute of Statistics

Mortgage Market

Home ownership is widespread in Turkey with over 70% of the population owning their own homes. However, almost all of these homes were self-financed. Thus, outstanding mortgages represented less than 1% of GDP. Historically, there have been large barriers for individuals seeking to obtain mortgage loans, such as large down payments, high interest rates and banks' unwillingness to offer mortgage products.

Mortgage lending has only recently become an area of focus for Turkish banks. For 1999, total originations were estimated at $ 500 million. Turkish banks offer both fixed and variable rate products. Loan maturity extends from 5 to 20 years and interest rates range from 2.5% to 3.5% per month for Turkish Lira denominated loans. Maximum LTVs reach 75%. There is no secondary mortgage market in Turkey.

Sources and References

1. World Bank, www.worldbank.org
2. CIA, World Factbook
3. Turkish State Institute of Statistics

ASIA AND AUSTRALIA

REGIONAL SUMMARY

Australia

Australia has experienced strong economic growth over the last decade. There was growth in employment and consumer spending levels as well as increased household wealth. The owner-occupancy rate is high, at more than 70%, with only 40% of households carrying mortgages. New home construction was also high, making up 25% of the home purchases in recent years.

Total mortgage debt outstanding increased 126% to almost US$127 billion in the last decade. Many different mortgage products are offered in Australia, including variable and fixed rate and flexible mortgage products. Mortgage Insurance is prevalent, thus reducing lenders' risk of loss. Securitization of mortgage loans expanded significantly in the last decade. This was initially led by non-depository mortgage banking institutions with more recent participation by large depositories.

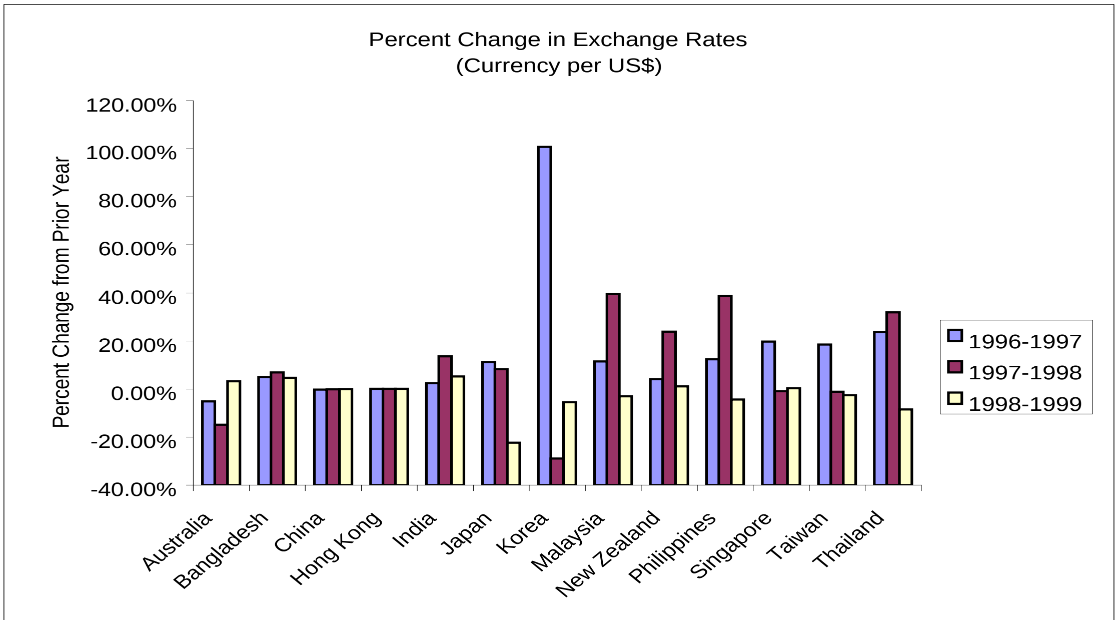
New Zealand

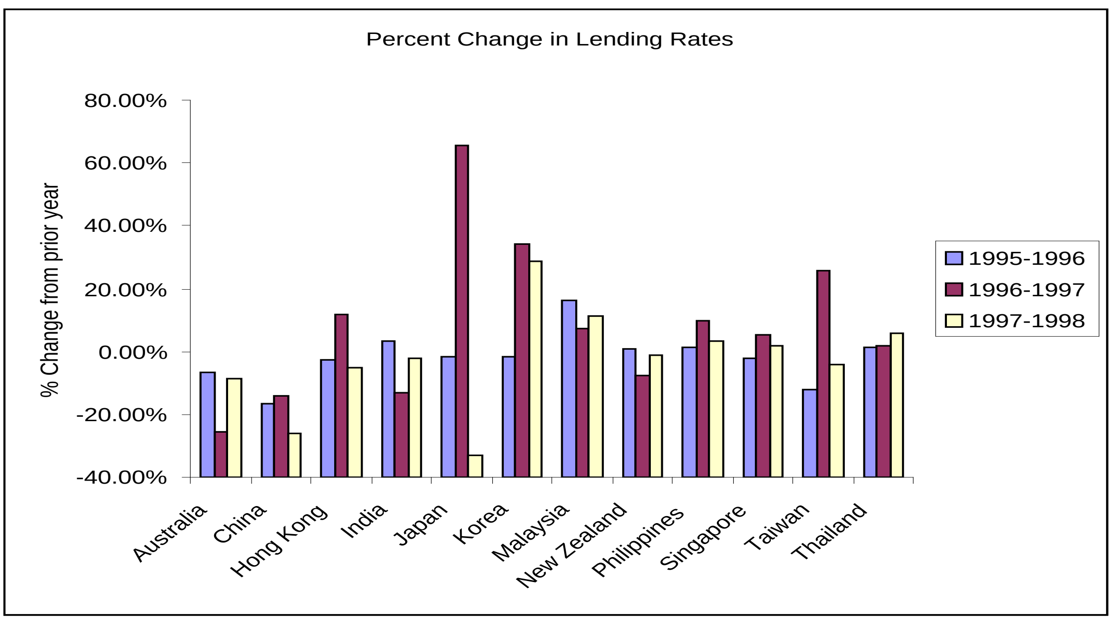
New Zealand found recent economic success through the development of a free market economy and trade. However, the New Zealand Dollar experienced recent depreciation, declining some 44% in four years against the US Dollar. Inflation has been declining over the last decade, ending at a negative .12% at the end of 1999.

New Zealand has a high rate of home ownership, at 71% of the total population in 1996. Single, detached housing dominates the region. However, price increases and new zoning laws have resulted in the increase of rental property construction in recent years. ABN AMRO is a leading mortgage lender, as are several large Australian banks.

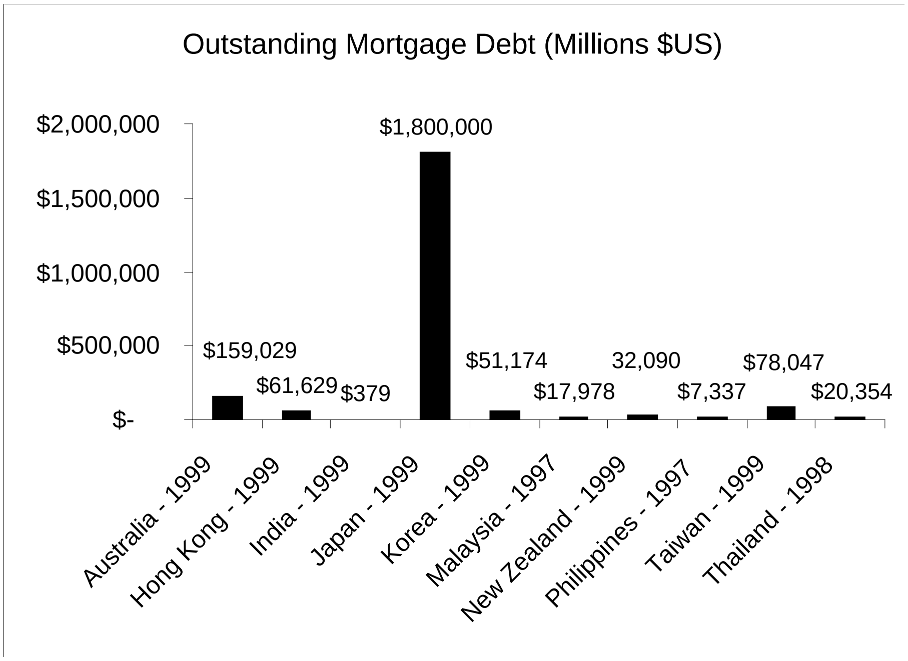
Asia

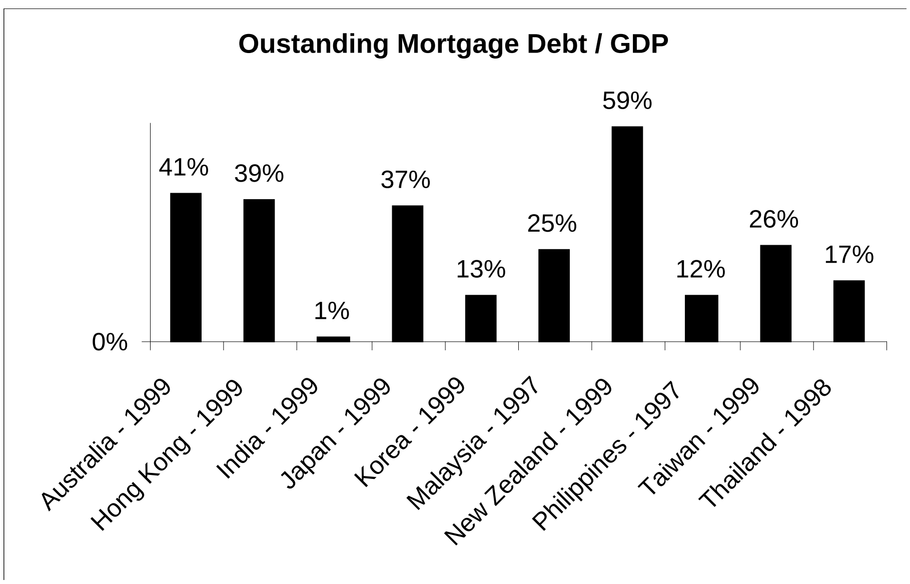
The Asian financial crisis of 1997 had an adverse impact on the economy of the region, and it subsequently forced the redirection of many fiscal policies for the countries there. Currency devaluations led to economic downturns and financial sector difficulties from which the regional economies are only beginning to emerge. Control over interest rates and lending guidelines have been loosened somewhat since the crisis in an effort to spur economic growth.


Percent Change in Exchange Rates
(Currency per US$)
Percent Change from Prior Year
120.00%
100.00%
80.00%
60.00%
40.00%
20.00%
0.00%
-20.00%
-40.00%
Australia
Bangladesh
China
Hong Kong
India
Japan
Korea
Malaysia
New Zealand
Philippines
Singapore
Taiwan
Thailand
1996-1997
1997-1998
1998-1999


Percent Change in Lending Rates
% Change from prior year
80.00%
60.00%
40.00%
20.00%
0.00%
-20.00%
-40.00%
Australia
China
Hong Kong
India
Japan
Korea
Malaysia
New Zealand
Philippines
Singapore
Taiwan
Thailand
1995-1996
1996-1997
1997-1998

Despite its economic difficulties in the 1990s, Japan remains the largest mortgage market in the region in terms of outstanding mortgage debt while New Zealand has the highest ratio of mortgage debt outstanding to GDP.





Governments in the region generally promote housing and housing finance, whether it is through state-owned financial institutions, subsidies or the use of provident funds (forced savings). The housing stock itself is predominantly of a condominium style, or high-rise flats. This is due to the small areas of land in many of the Asian countries. The rate of home ownership is high, with Singapore leading the way at 87%, followed by Taiwan at 84%. Investor speculation and the subsequent economic crisis have resulted in overbuilding and thus oversupply of stock in some countries.

Efforts to make mortgage lending more prevalent and affordable are underway throughout most of the region, with plans for secondary markets & securitization in place as well. Hong Kong, Japan and Malaysia have begun securitizing mortgages, while China, India, Korea and Thailand have plans to develop secondary markets in the near future. Mortgage Insurance is also a topic for policy development in some countries as a means of reducing credit risk for lending institutions, thereby increasing the availability of mortgage funds.

Australia

Economic Background

				Australian $	US$
Year	Exchange Rate Australian $ /US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Billions)	Nominal GDP (Billions)
1990	1.28	88.37	7.27%	393.66	307.55
1991	1.28	91.22	3.22%	399.89	312.41
1992	1.36	92.12	0.99%	416.11	305.96
1993	1.47	93.79	1.81%	438.11	298.03
1994	1.37	95.57	1.89%	464.14	338.79
1995	1.35	100.00	4.64%	491.59	364.14
1996	1.28	102.61	2.61%	521.70	407.58
1997	1.34	102.87	0.25%	549.29	409.92
1998	1.59	103.75	0.85%	579.14	364.24
1999*	1.55	105.27	1.47%	607.79	392.12

Source: IMF; *1999 GDP Reserve Bank of Australia

As of June 1999, Australia had recorded strong economic growth of 4.1% in real GDP for the year. Growth in each of the eleven quarters prior to March 1999 was strong and relatively stable, falling between 0.5% and 1.5%. However, in the quarter ending June 1999, growth had slowed to 0.2%.

Increasing domestic demand resulting from rising levels of consumer spending was the main driving force behind the growth in GDP. Increased household wealth and consumer confidence, together with strong growth in personal credit, were major influences leading to the high levels of consumer spending.

During 1998-99, the annual inflation rate, as measured by the increase in the Australian Consumer Price Index, was as low as 1.47%. The Treasury rate underlying the CPI that excludes items subject to volatile price fluctuations was 1.7%. The CPI has remained below 2% for the last two and a half years. While inflation edged up during the past year, it remained below the Reserve Bank's target range of between 2-3%.

Employment grew 2.2% during 1998-99, up from 1.4% the previous year. The unemployment rate declined to an average of 7.6% over the year, the lowest level since 1989-90. The unemployment rate reached 7.2% in June 1999, a full percentage point lower that the rate in 1998.

The Reserve Bank's target for monetary policy is the cash interest rate. The cash rate of 4.75% was unchanged during the period December 1998 to June 1999.

Housing Market

Most homes in Australia are privately owned with an owner-occupancy rate of more than 70% (Australian Bureau of Statistics 1999). Of the owner-occupied homes, only 40% carried a mortgage.

Australian Housing Stocks

Dwelling Type	1991 Census	1996 Census
Single Family Homes	4,476,238	5,366,478
Semi-detached, Terrace and Townhouses	442,732	574,063
Flats/Units/Apartments	653,956	930,856
Caravans/Cabins/Houseboats	138,273	147,834
Other Dwellings	38,881	156,006
TOTAL DWELLINGS	5,750,237	7,175,237

Source: Australian Bureau of Statistics

Approximately 80% of the housing stock consisted of detached single family houses. The remaining 20% are made up of semi-detached houses, row or terrace houses, townhouses, flats, units and apartments.

Almost 75% of homebuyers purchased an existing/used home. The price of established houses in Australia, as measured by the Australian Bureau of Statistics (ABS) Established House Price Index, rose by almost 85% between June 1986 and June 1996. The consumer price inflation (CPI) index rose by 58% over the same period. A large proportion of the remaining 25% of purchases consist of low income homes.

The ABS estimates the number and value of housing. In 1998-99 all groups of mortgage lenders made a total of 396,702 housing loan commitments for a total value of $51.74 billion. The number of commitments made (excluding re-financing) was up 2.5%, and the value was up 14.6% compared with 1997-98.

New home construction and the purchase of new homes was 93,603 units in 1998-99, a decrease of 3.9% from the previous year. The value of these loans was $12.15 billion, an increase of 7.7% from the previous year. This sector comprised 23.6% of the total housing market.

The purchase of established dwellings was 303,099 loans, up 4.7% compared with 1997-98, and comprised 76.4% of the housing market. The loan value was $39.59 billion, an increase of 16.9% from the previous year. This segment accounted for 76.5% of the total housing market.

Mortgage Market

The Australian housing finance sector experienced rapid growth throughout the 1990s. From 1992 through the end of 1998, total mortgage debt outstanding had increased 126%, to almost US$127 billion. The trend continued as the balance grew to just over $160 billion by the end of 1999. Australia finances on the order of 400,000 to 500,000 mortgages per year (both new mortgages and re-finances).

Residential Mortgage Market (million A$)

Year	Mortgage Debt Outstanding	Mortgage Debt-to-GDP
1992	100,738	24.2%
1993	121,228	27.7%
1994	148,216	31.9%

1995	165,848	33.7%
1996	181,351	34.8%
1997	198,093	36.1%
1998	217,885	37.6%
1999	246,495	40.7%
2000	286,326	

Source: Reserve Bank of Australia

In 1998-99, all lenders in Australia financed a total of 487,977 units (A$61.5 billion). The average loan rose 12.5% to $130,425. In 1998-99 80.2% of loans were used to purchase or refinance established homes, 15.2% in construction loans and the remaining 4.6% to purchase new homes. Construction lending fell by 1% in 1998-99 to 73,445, while the purchase of new homes fell by 13% to 20,153. However, financing of established homes (including refinancing) increased 2.5% to 394,379.

Historically, commercial banks have provided the bulk of the housing finance. In 1994 88% of all mortgage debt outstanding was originated by commercial banks. The rest of the mortgage credit was provided by building societies (5.8%), credit unions (3.0%), life insurance companies, and finance companies (3.1%). The commercial bank market share fell to 72.1% in 1998. This was a result of aggressive competition from mortgage managers (specialized, mortgage originators funded through securitization). The specialized mortgage lenders are competitive on price, mortgage product, efficiency in origination, funding and servicing of loans. This competition has forced the commercial banks and building societies to be more competitive as well as innovative in packaging and cross-selling of other financing products and services with mortgage loans.

Residential Mortgage Market Share (% of Outstanding)

Type of Institution	1994	1998
Banks	88.10%	72.16%
Building Societies	5.80%	3.85%
Credit Unions	3.00%	3.87%
Specialized Lenders	3.10%	20.11%
Total	100.00%	100.00%

Source: Reserve Bank of Australia

The commercial banks' market share rose to 83.5% of total (number) loans in 1999. This was up from 81.2% in the previous year. The number of loans made by banks for housing totaled 404,159 in 1999, a 3.3% increase from the previous year. This increase contrasted with an 8.7% decrease in the number of loans of other lenders to 65,024. The number of loans made to individuals by permanent building societies decreased 4.7% to 18,794.

The main commercial bank, mortgage lenders are Commonwealth Bank, National Australia Bank, Westpac Bank and ANZ Bank.

Commercial Banks-Mortgage Debt Outstanding (Feb 1999)

Bank	Balance A$ Millions	US$ Millions	% of Total

Commonwealth Bank	32,947	20,986	22.09%
National Australia Bank	26,748	17,037	17.93%
Westpac Banking Corporation	26,091	16,618	17.49%
ANZ Banking Group	19,222	12,244	12.89%
St. George Bank	17,101	10,892	11.46%
26 Additional Banks Holding Mortgages	27,052	17,231	18.14%
Total	149,162	95,007	100.00%

Source: Australian Prudential Regulation Authority

In 1998-99, the average loan from a bank was $127,400 (12.5% increase from the previous year), permanent building societies, $117,800 (up 8.9%), and $119,400 from other lenders (an increase of 3.7%).

As of June 1999, the average, variable interest rate on a home mortgage was 6.34%, while the average 3 year fixed rate was 6.94%. Mortgage rates have been on a downward trend since the late 1980s. This was mainly due to the downward trend in the inflation rate. More recently, increased competition in the market has been responsible for a contraction in lending margins over the real interest rate from over 4% to between on average 1.2%-1.6%..

A large variety of mortgage products are offered in Australia. These include variations of fixed and variable rate instruments. The most common instrument offered is, however, a standard 25-year amortizing, reviewable rate mortgage. The rate on this instrument is varied at the discretion of the lender. This instrument accounts for approximately 80% of the total market (Standard and Poors 1998).

For all mortgage types, typical loan-to-value ratios average 80%. However, depending on the mortgage program they can go as high as 90%. The typical range of payment-to-income ratios is 25%-35%. Almost all mortgages originated in Australia are A quality; a fact that is reflected in the low, overall default rate in Australian mortgage portfolios.

Lender loss in Australia is minimized by the use of mortgage insurance. Most mortgages in Australia carry a mortgage insurance policy. The policy insures 100% against loss, against the loan balance plus costs (Fitch 1997). Insurers are required to pay claims within 14 days of receipt of a claim.

The mortgage insurance industry is dominated by four companies: Commercial Union Lender Mortgage Insurance Co. Ltd. (LMI), GE Mortgage Insurance PMI Mortgage Insurance Ltd.and Sun Alliance and Royal Mortgage Insurance Ltd. (Sun Alliance).

The securitization of mortgage loans in Australia developed substantially in the 1990's. Around US$40 billion in mortgage debt has been securitized. This represents approximately 19% of the outstanding mortgage balance in the system. Until 1997, the main securitizers were the non-depository, mortgage banking institutions. The three largest, PUMA, Aussie Home Loans and RAMS Mortgage Corp, finance their operations mainly by issuing mortgage-backed securities. Commercial banks have recently accelerated the securitization of their mortgage portfolios. This trend was reinforced by the June 1998 Westpac securitization of US$1.4 billion in the first global and biggest debt issue by an Australian financial institution. The security was denominated in Australian Dollars and marketed in the United States.

Sources and References

1. IMF Statistics, 2000
2. Australian Bureau of Statistics, various reports.
3. Australian Financial Institutions Commission, various statistical tables 1998.
4. Bernstein, S., The Australian Mortgage Market, report prepared for the Mortgage Bankers Association of America, April 1999
5. Lea, M.J. And S.A. Bernstein, *International Housing Finance Sourcebook 1995.* International Union for Housing Finance Institutions, 1995.
6. Michaux, Fabienne, "Standard & Poor's Australian Residential MBS Criteria", 1998.
7. Reserve Bank of Australia, Monthly Bulletin, various issues 1998-1999.
8. Zelter, Jill M. and Kevin Stehpeson, "Australian Mortgage Default Model." Fitch. 1998.

Contacts

1. Australian Association of Permanent Building Societies
   PO Box 9021
   16 Thesiger Court Deakin ACT 2600
   Tel: (02) 6281 1588
   Fax**:** (02) 6285 1674
   http://www.aapbs.com.au/

2. Westpac Banking Corp.
   Level 25, 60 Martin Place,
   Sydney NSW 2000, Australia Contact (Australia) **:** Ph: (02) 9226 3143,
   Fax: (02) 9226 1539 Contact (Overseas)**:** Ph: 61 2 9226 3143,
   Fax: 61 2 9226 1539
   Email: westpac@westpac.com.au
   http://www.westpac.com.au

BANGLADESH

Economic Background

Year	Exchange Rate Taka/ US$	Consumer Price Index	Change in Consumer Prices	Taka Nominal GDP (Billions)	US$ Nominal GDP (Billions)
1990	34.75	77.07	6.13%	737.57	21.23
1991	36.60	81.97	6.36%	834.39	22.80
1992	38.95	84.95	3.63%	906.50	23.27
1993	39.57	87.50	3.01%	948.06	23.96
1994	40.21	92.15	5.31%	1030.36	25.62
1995	40.28	100.00	8.52%	1170.26	29.05
1996	41.79	104.06	4.06%	1301.60	31.15
1997	43.89	109.48	5.21%	1403.05	31.97
1998	46.91	118.56	8.29%	1548.33	33.01
1999	49.09	N/A.	N/A.	1749.26	35.63

Source: IMF

The Bangladesh economy is dominated by the agricultural sector, which contributes to 32% of the GDP. Most of the capital flows to the Bangladesh are accounted for by a combination of foreign grants and subsidized loans. As of 1996, the Housing Sector made up 7.4% of GDP.

Sector – 1995 – 1996	% of GDP
Agriculture	31.9%
Infrastructure	14.1%
Industry	11.5%
Professional Services	11.8%
Trade	10.0%
Housing	7.4%
Construction	6.3%
Public Administration	5.2%
Banking & Insurance	1.8%
Total	**100%**

Source: IFC Appraisal Report for Delta BRAC Housing Finance Corp.

Bangladesh's financial sector is relatively small and underdeveloped. The financial system is dominated by the nationalized commercial banks (NCB) which account for over 70% of total financial industry assets. The financial system includes four, state-owned, commercial banks; seven, private-sector banks; four Development Finance Institutions; many, non-banking, financial institutions; the Stock Exchange and insurance companies.

Commercial banks limit their lending to projects with "prime" sponsors, and the capital markets are also small with capitalization of the Dhaka and Chittagong Exchanges. The fact that State Owned Enterprises can get cheap funding easily has led to interest rate distortions, which in turn have impacted the financial market developments. Government savings plans have kept private investment out by putting them at a competitive disadvantage.

Housing Market

Bangladesh has been facing a rapid, urbanization trend in recent decades. As a result, previously small, urban centers such as Dhaka, Chittagong, Khulna, and Rajshashi have become the home of over 40 million, or 30% of the total population. As a result, the Consumer Price Index in Housing has increased tremendously in the last 20 years. Total investment in housing has been constant in the last decade, at 9% of the GDP.

The lack of private financing cited above results in a relatively low share of housing as a percent of GDP and also results in a lack of strong, financial institutions for housing, relative to the other sectors. Current estimates are that there is a high tenant population of 65% of the households in Dhaka. This suggests a restricted access to owning a home due to difficult avenues for obtaining home financing.

Mortgage Market

The International Finance Corporation (IFC) holds 15% of the shares in the Delta Brach Housing Finance Company (DBH), which was created in 1998 to provide private sector housing finance in Bangladesh. The company provides long-term home mortgage loans, increases the overall housing stock and stimulates home ownership.

Sources and References

9. IMF Statistics, 2000
10. International Finance Corporation Bulletin http://www.ifc.org
11. International Monetary Fund www.imf.org
12. World Bank, www.worldbank.org

China

Economic Background

Year	Exchange Rate Yuan/US$	Consumer Price Index	Change In Consumer Prices	Yuan Nominal GDP (Billions)	US$ Nominal GDP (Millions)
1990	4.78	N/A	3.06%	1,831.95	383.25
1991	5.32	N/A	3.54%	2,128.04	400.01
1992	5.51	N/A	6.34%	2,586.36	469.39
1993	5.76	N/A	14.58%	3,450.06	598.97
1994	8.62	N/A	24.24%	4,669.07	541.66
1995	8.35	N/A	16.90%	5,851.05	700.72
1996	8.31	N/A	8.32%	6,833.04	822.27
1997	8.29	N/A	2.81%	7,489.46	903.43
1998	8.28	N/A	0.84%	7,985.33	964.41
1999	8.28	n/a	n/a	8,268.01	998.55

Source: IMF; *Central Bank of China (Estimate)

Beginning in late 1978, the Chinese leadership moved the economy from a sluggish Soviet-style, centrally planned economy to a more market-oriented economy. The result has had a quadrupling effect on GDP since 1978. In 1999, with its 1.25 billion people and a GDP of just $3,800 per capita, China became the second largest economy in the world after the US. Agricultural output doubled in the 1980s. Industry also posted major gains, especially in coastal areas near Hong Kong and opposite Taiwan, where foreign investment helped spur output of both domestic and export goods.

In late 1993, China's leadership approved additional, long-term reforms aimed at giving still more play to market-oriented institutions. Their leadership also approved measures to strengthen the center's control over the financial system. State enterprises would continue to dominate many key industries in what was termed "a socialist, market economy". From 1995-99, inflation dropped sharply, reflecting tighter monetary policies and stronger measures to control food prices. At the same time, the government struggled to (a) collect revenues due from provinces, businesses, and individuals; (b) reduce corruption and other economic crimes; and (c) keep afloat the large, state-owned enterprises, most of which had not participated in the vigorous expansion of the economy and many of which had been losing the ability to pay full wages and pensions.

Interest Rates

Year	Deposit Rate	Lending Rate
1990	8.64%	9.36%
1991	7.56%	8.64%
1992	7.56%	8.64%
1993	10.98%	10.98%
1994	10.98%	10.98%
1995	10.98%	12.06%
1996	7.47%	10.08%
1997	5.67%	8.64%

1998	3.78%	6.39%
1999	2.25%	5.85%

Source: IMF

Housing Market

Until 1990, the Chinese government had total control over the housing market, including investment, construction, distribution as well as management and repairs. These houses were distributed to the citizens through the administrative function of the government without any payment or through state-owned enterprises (SOEs) as part of the comprehensive wage-benefit package offered to employees. The investment made by the government to provide such housing had no return and as such, this system lacked any incentives for development of a modern, housing industry. Also, the provision and upkeep of houses for employees has become a major burden for bankrupt or cash-strapped SOEs.

Starting in 1991, the housing system reform was put in place throughout the country, including the establishment of the housing provident fund to provide additional funds for construction. This regulation required employers, both public and private, as well as the employees, to contribute a certain portion of the employee's wages to the reserve. The funds gathered were mostly used for social housing development and mortgage loans. In addition, SOE owned housing is being sold to employees at substantial discounts (or in some instances given away) in order to reduce or eliminate the SOE obligation.

Since 1998, the Chinese government has made several market-driven reforms to further develop the housing and real estate industry, such as enlarging the LTV ratio to 80% and extending the loan term to 30 years. There are also tax breaks on capital gains from sales of homes and other real estate transactions. The investment in urban housing construction has amounted to approximately RMB 500 billion yuan, accounting for over 16% of the total fixed asset investment. Urban housing volume is at 500 million square meters. The average, per-capita living space of urban citizens was 9.8 meters, compared to 3.6 in 1979.

All of these changes are making the real estate market more vibrant. In 1999, 19,771 houses were put on the market for resale.

Mortgage Market

There are two sectors of housing finance, the provident fund mortgage and the commercial mortgage in China. The provident mortgage is designed to assist citizens in a concentrated area by offering a set interest rate, usually about 2 percentage points above the depository, interest rates. Only those who contribute to the fund are eligible for loans. By the end of 1999, the total sum of the provident fund reached RMB 140.9 billion yuan.

There are four, state-owned, commercial banks in China who fund mortgage and other real estate loans. By the end of 1999, total, real estate loans amounted to RMB 355.6 billion yuan. Over 61% of the total loans were real estate development loans, leaving about 39% for individual mortgages and other loans. Individual, mortgage loans increased over 145% from the previous year. By March 2000, real estate loans provided by commercial banks reached RMB 450 billion yuan, with 136.3 billion making up individual housing loans. Under the direction of the Bank of China, these state-owned commercial banks issued housing mortgage bonds against the individual mortgages.

Up to this point, construction development had been regionally based and concentrated in certain urban areas, thus causing the mortgage market to develop faster in those areas. Southeastern, coastal areas are developing much faster than the rest of the country in terms of housing finance.

Competition between commercial banks has dramatically increased within the past few years, as the changes in the housing market are evident. This will lead to increased lending, better quality of service and more diligent, lending practices to minimize risks.

Policy Developments

Policy development plays a major role in the development of housing and mortgage markets in China. In addition to the changes under way, the government is looking to find ways to focus on improving the quality of housing, enhancing affordability, as well as decreasing credit risk.

The following issues are on the agenda for the government of China to further develop the housing and mortgage market:

- Enhance affordability and loan-repaying capabilities of individuals
- Standardize the real estate transaction process and implement proper measures to increase the number of real estate transactions
- Further increase housing supply and quality of housing
- Improve efficiency of the provident fund
- Work with commercial banks to lower credit risk, potentially looking into mortgage insurance
- Mortgage-backed securities (MBS) are currently being discussed for certain cities

Sources and References

1. IMF Statistics, 2000
2. CIA, The World Factbook, 2000
3. Jonson Cheng Cong, "A Booming Housing Mortgage Market in Shanghai", Housing Finance International, March 1998
4. Chinese Housing Finance Delegation Report provided to participants at the US Department of Housing and Urban Development seminar on housing finance, Washington DC, June 2000.

HONG KONG

Economic Background

				Hong Kong $	US$
Year	Exchange Rate HK$/ US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Billions)	Nominal GDP (Billions)
1990	7.79	64.31		582.55	74.78
1991	7.77	71.76	11.58%	668.51	86.04
1992	7.74	78.46	9.34%	779.34	100.69
1993	7.74	84.31	7.46%	897.46	115.95
1994	7.73	91.67	8.73%	1,010.88	130.77
1995	7.74	100.00	9.09%	1,077.14	139.17
1996	7.73	106.32	6.32%	1,191.89	154.19
1997	7.74	112.53	5.84%	1,324.70	171.15
1998	7.75	115.72	2.83%	1,267.44	163.54
1999*	7.76	111.13	-3.97%	1,233.14	158.91

Source: IMF; * Census & Statistics Dept of Hong Kong

On July 1, 1997, Hong Kong reverted back to the People's Republic of China (PRC) after more than 150 years as a colony of the British Crown. Under the terms of the Sino-British Joint Declaration, Hong Kong became a Special Administrative Region (SAR) of the PRC. A Basic Law was established under which the current legal and economic system will remain in place until 2047 (DMG 3).

Following the smooth administrative transition, the new SAR faced its first economic challenge in the Asian crisis of 1997-98. Prior to the crisis, fast growth, low unemployment, persistent moderate inflation and negative real interest rates characterized Hong Kong’s economy. Real GDP growth averaged 5% per year from 1992 to 1997. The unemployment rate averaged 2.4% over the same period. Inflation averaged 8.7% per year from 1990 to 1997. In this environment, asset prices escalated rapidly. Real estate speculation drove up property values by 40% or more in some years.

With the onset of the Asian financial crisis, external demand dropped sharply. The depreciation of the Yen and other Asian currencies caused a relative appreciation of the Hong Kong Dollar, which has remained closely linked to the U.S. $ since 1983 (IMF 1, DMG 3). Real GDP fell 5% in 1998. Inflation dropped to 2.8% for 1998. Interest rates rose, and in 1998 the Best Lending Rate averaged 9.94%. Asset prices dropped steeply. From July 97 to August 98, the Hang Seng stock index fell 55%. From Q4/97 to Q4/98, home prices dropped by 40%. The unemployment rate rose to 4.7% for 1998.

Beginning in Q2/99, Hong Kong began to emerge from its recession. By July the Best Lending Rate had dropped back to 8.25%. Preliminary estimates showed real GDP finishing the year up 2.9%. This can be attributed to reviving external and internal demand. Prices fell the entire year with the CPI dropping 4.0%. The unemployment rate for 1999 averaged 6.2%.

Interest Rates

Year	Money Market	Deposit Rate	Treasury Bill Rate	Lending Rates
1990	11.50	6.67		10.00
1991	4.63	5.46		8.50
1992	3.81	3.07	3.83	6.50
1993	4.00	2.25	3.17	6.50
1994	5.44	3.54	5.66	8.50
1995	6.00	5.63	5.55	8.75
1996	5.13	4.64	4.45	8.50
1997	4.50	5.98	7.50	9.50
1998	5.50	6.62	5.04	9.00
1999	5.75	4.50	4.94	8.50

Source: IMF

Housing Market

In 1999, there were 2.1 million housing units in Hong Kong. Because of the population density and scarcity of land, nearly all Hong Kong residential property is condominium style. There is almost no single-family, detached housing.

About 54% of Hong Kong's housing units are privately owned. Thirty-two percent (32%) of housing is publicly supplied rental housing. The remaining 14% of the stock are government-subsidized sale flats. The stock distribution as of September 1999 was as follows:

Stock of Personal Residence Flats September 1999 (000)	
Public Rental	682
Subsidized Sale	304
Privately Owned	1,140
Other	114
Total	2,130

Source: Hong Kong Housing Authority

The Hong Kong Housing Authority (HKHA) is the government institution responsible for administering Hong Kong's public rental program and subsidized financing programs for low and middle-income purchasers. Public, rental units are in very high demand due to their low cost and high quality. However, the waiting list for these units is long. In September 1999, the average wait was six years. The Hong Kong Housing Society (HKHS) is a non-profit organization whose programs are aimed primarily at assisting middle income families in their home purchases.

Homeownership rates have risen, as the people of Hong Kong have become more affluent. From 18% in 1971, the homeownership rate rose to 33% by 1985 and 52% by 1999.

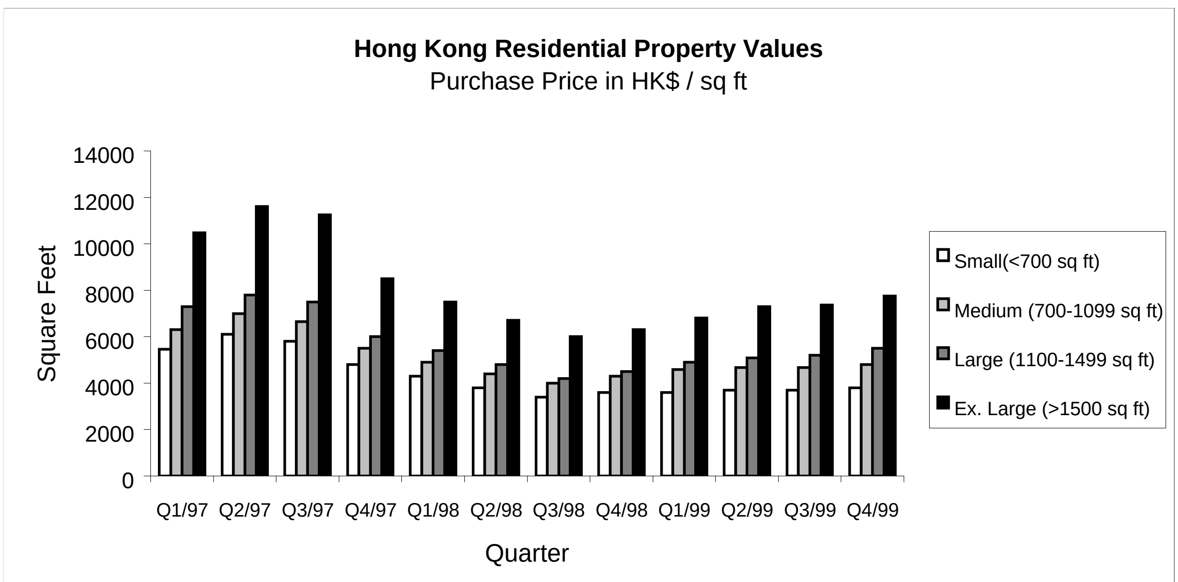
In an effort to meet housing demand and help reduce disruptive real estate speculation, the government is encouraging increased home construction in Hong Kong. According to a White Paper on Long-term Housing Strategy (LTHS) issued in 1998, the government seeks to provide 85,000 flats/year to the Hong Kong market. Its goal is to build 50,000 flats/year through the public sector and to facilitate the building of 35,000 flats/year through the private sector. Moreover, it aims to reduce the average waiting time for public rental housing to 3 years by 2005 and to achieve a home ownership rate of 70% by 2007. In 1999, the production goals of the LTHS were met.

New Production (thousands)

	1994	1995	1996	1997	1998	1999
Public Rental	17.1	17.3	18.4	16.0	14.1	29.4
Subsidized Sale	4.4	16.2	10.7	21.5	21.1	22.5
Private	34.5	21.2	17.2	15.9	19.5	33.2
Total	**56.0**	**54.8**	**46.3**	**53.5**	**54.7**	**85.1**

Source: HK Central Statistics

Although Hong Kong property values fell significantly in their recent recession, they remain high relative to other housing markets. The Ratings and Valuation Department estimated that property prices fell by 5-6% in 1999. As Hong Kong has emerged from its recession, property values are increasing despite falling prices in the rest of the economy. Since the bottom of the market in Q3/98, home prices have begun to rise again, particularly for larger units.



Source: Vigers Hong LTD (Bloomberg)

)

Mortgage Market

The economic downturn has led to a dwindling demand for loans from the commercial sectors. Consequently, the total loan portfolio of all authorized institutions (authorized by the Hong Kong Monetary Authority, HKMA) shrank by approximately 10% from the peak of HK$ 2.04 billion in September 1997 to HK$ 1.82 billion in December 1999. In addition to the shrinking demand, loan quality has also been affected as evident in a rising non-performing loan ratio. To cope with the negative impact of the difficult, operating environment on profitability, banks have decided to channel more resources to the residential, loan market. This strategy has contributed to some growth in residential mortgage lending despite the contraction of the overall loan market.

The total amount of residential loans outstanding increased from HK$ 473 billion in September 1997 to HK$ 532 billion at the end of 1999. Approximately 90% of mortgage lending is provided by 33 Authorized Institutions. The mortgage debt to GDP ratio is approximately 41%.

Although the residential mortgage loan market achieved positive growth, the pace was strikingly slower than previous years. During the boom time in 1997 the monthly growth rate usually exceeded 2%. However in the subsequent two years, the rate slowed down to between 0.5% and 1.0%. The pace further slumped to a zero growth rate in the fourth quarter of 1999. In 1999, gross, new lending by authorized institutions was HK$ 119 billion, which was 6.1% higher than 1998.

Residential Mortgage Market* (HK$ million)

Year	Mortgage Debt Outstanding	New Originations Gross
1994	244,126	85,391
1995	269,589	92,110
1996	319,902	162,957
1997	425,784	256,299
1998	455,863	112,414
1999	478,244	119,225

Lending by authorized institutions; Source: HKMC

Mortgage rates declined by approximately 50 basis points in 1999 to 8.5% by December. Given the sluggish market environment, banks have become more aggressive in attracting new mortgage business. In 1999, they used the following two tactics to attract borrowers:

- Sub-prime, mortgage rates for a certain period of time (3-5 years)
- Cash rebate on a percentage of the loan amount

HKMC has estimated the financial effect of these options at approximately 50 basis points in yield.

While fixed rate loans are offered, the typical Hong Kong, residential loan is a fully amortizing, floating rate loan, indexed to the Best Lending Rate (BLR), Hong Kong's prime rate. Mortgage rates have ranged from 1.75% over the BLR in 1994, to .25% in 1998 and through BLR in 1999. The typical term ranges from 15 to 30 years but is usually 25 years. Since February 1994, the Hong Kong Monetary Authority (HKMA) has set the maximum, permissible LTV to 70%. For mortgages originated in 1999, the average LTV was 57.6%. The maximum debt-to-income ratio is 50%. Prepayments are allowed, but a penalty is assessed if a prepayment is made in the first year. Prepayment speeds during stable interest rate environments are 25-30% CPR, with the largest portion coming from turnover as buyers trade up to larger, better quality housing (DMG 18). Delinquency rates were relatively low. In 1999 HKMA reported a delinquency rate (more than 3 months) of 1.13%, up substantially from 1998.

The market for mortgage securitization began to develop in the mid-1990s. In 1994 the HKMA issued guidelines that limited the Hong Kong banking community's mortgage exposure to 40% of their portfolios. At that time, many banks were at or near that limit. With a rapidly growing mortgage market, banks had to sell or securitize parts of their mortgage portfolio to comply with the HKMA guidelines. Soon after, the first mortgage backed security was issued in 1994. Since then, a variety of HK$- and US$-denominated MBS issues have come to market and have been sold both in Hong Kong and abroad.

The Hong Kong Mortgage Corporation (HKMC), loosely modeled after USA's FNMA, was established in March 1997 with initial capital of HK$1 billion from the Exchange Fund (the paid-up capital has been increased to HK$2 billion together with a HK$1 billion capital which can be called up if necessary). Its primary objective is the promotion of developing the secondary mortgage market in Hong Kong. A liquid, secondary mortgage market will help the authorized institutions address the above mentioned risks. In case of necessity, institutions can sell their mortgage loans in the secondary market to raise liquidity, by which they can manage their risks effectively.

As of December 1999, the HKMC portfolio had 6,744 loans with outstanding principal balances of HK$ 8,752 million. HKMC has funded its purchases through a combination of discount and medium-term notes. HKMC issued two MBS's in 1999, an issue of HK$ 1 billion for Dao Heng Bank in October and a deal of HK$ 630 million for American Express Bank in December. Both transactions were swaps ("back-to-backs") of mortgages for HKMC securities (which have a 10% risk weight as opposed to a 50% whole loan risk weight).

Policy Development

HKMC launched a mortgage insurance program (MIP) in March 1999. Under the MIP, the HKMC provides insurance cover at a fee to approved sellers for an amount up to 15% of the property value. This allows banks to make loans with an LTV ratio up to 85%, without taking on additional risks. The insurance is written by private mortgage insurers and re-insured by HKMC.

Sources and References

1. IMF Statistics, 2000
2. International Monetary Fund
3. CIA World Factbook 2000 – Hong Kong
4. Bank of East Asia, Economics Department
5. Hong Kong Mortgage Corporation, Bi Monthly Report January 2000
6. Hong Kong Monetary Authority
7. Asian Development Bank

Contacts

1. Hong Kong Mortgage Corporation
   Office Address
   7th Floor Gloucester Tower
   11 Pedder Street

2. Central Hong Kong SAR
   Telephone: (852) 2536 0000
   Fax: (852) 2536 0095
   http://www.hkmc.com.hk/

3. Hong Kong Housing Authority
   33 Fat Kwong Street, Ho Man Tin
   Kowloon Hong Kong
   Tel: 852.2714.5119
   http://www.info.gov.hk/hd

4. Hong Kong Monetary Authority
   30th Fl, Garden Road, Hong Kong
   Tel: 852.2878.8196
   Fax: 852.2878.8197

INDIA

Economic Background

				Rupee	US$
Year	Exchange Rate Rupee/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	17.50	199.00		408,662	23,352
1991	22.74	225.00	13.07%	477,814	21,012
1992	25.92	243.00	8.00%	552,768	21,326
1993	30.49	264.00	8.64%	630,772	20,688
1994	31.37	289.00	9.47%	799,077	25,473
1995	32.43	317.00	9.69%	943,408	29,091
1996	35.43	350.00	10.41%	1,103,238	31,139
1997	36.31	372.00	6.29%	1,285,259	35,397
1998	41.26	429.00	15.32%	1,426,670	34,578
1999	43.42	437.00	3.86%	1,646,610	37,925

Source: IMF

During the fiscal year (FY), 1999/2000 (ending 31 March), the Indian economy was on the way to recovery, with industrial output clearly on an upward trend. The industry sector grew, with the index of industrial production up by 6.2 percent during the first nine months of the year, compared with 3.7 percent in the previous corresponding period. However, because of weaker performance of the agriculture sector, GDP growth in FY 1999/2000 declined to 5.9 percent, compared with 6.8 percent in the previous year. Inflation was down considerably to less than 4% from 15% the year before. By the end of February 2000, foreign exchange reserves (excluding gold and special drawing rights), estimated at $32.8 billion or eight months equivalent of imports, had increased by $3.3 billion, compared with the level at the end of last fiscal year. Reflecting the stable outlook of the external economy, the pressure on the exchange rate eased, compared with that of the previous year.

The fiscal situation at both central and state levels continued to deteriorate. This caused further concern for maintaining macroeconomic balances. In view of the rapidly growing fiscal deficit, the central Government's budget for FY 1999/2000 proposed several measures for fiscal strengthening. The budget simplified excise taxes and customs duties, raised levels of income taxes and corporate taxes, and increased duty rates and the prices of diesel fuel. The budget also proposed to quicken the pace of privatization with a target of Rs100 billion for FY 1999/2000.

Housing Markets

India’s population is the second largest in the world. In 1991 (the last census conducted) there were846 million in the country accounting for 16 per cent of the world’s population. It is estimated that India’s population surpassed 1 billion in 1999. In India, the major driver for housing finance is the country's large population and growing urbanization. The urban population comprised 20% of total population in 1971, increased to 26% in 1991 and it is estimated at 30% in 1997.

The total housing stock in the country was 148 million units in 1991; however, the useable housing stock was only 133.8 million units in 1991. India continues to face the problem of shortage of housing units in the country. The housing shortage was 23.3 million units in 1981, and it came down to 22.9 million in 1991. It is estimated that the shortage may come down to a level of 19.4 million units by the year 2001.

Historically, housing has been a self-help activity for a majority of households. A major portion of the cost of a dwelling unit is financed out of personal savings, borrowings from friends, relatives and from the informal sector. In the last thirty years, the entry of financial intermediaries in the formal sector has facilitated the creation of housing stock. Despite the progress made thus far, significant housing shortages still exist. It is estimated that by 2001, there will be a shortage of 23 million units. Historical and projected trends in overall housing needs are shown in the table below:

Housing Information

Indicator (Millions)	1961	1971	1981	1991	2001

Population	439.2	548.2	685.2	814.6	1000.0
No of Households	83.5	97.1	123.4	146.1	
Total Housing Stock	79.3	93.0	116.7	149.0	179.0
Below Standard Housing	11.0	10.4	16.6	33.9	
Usable Housing Stock	68.3	82.6	100.1	115.1	164.0
Housing Shortage	15.2	14.5	23.3	31.0	23.0
Rural Share	**11.6**	**11.6**	**16.3**	**21.0**	**13.0**
Urban Share	**3.6**	**2.9**	**7.0**	**10.0**	**10.0**

Source: NHB: Annual Report

Mortgage Markets

The Indian, housing finance system is relatively small, even by developing country standards. The ratio of mortgage debt outstanding to GDP is approximately 1%. The major reasons for the small size of the sector are the legacy of the directed credit system that did not allow traditional, financial institutions to competitively provide mortgage loans and the weak legal system that did not support the rights of mortgage lenders in the event of default. Housing finance has traditionally been provided by specialized, housing finance companies (HFCs), supported by regulatory preferences and refinancing from the National Housing Bank (NHB).

The commercial banks are the largest mobilizer of savings in the country. The household sector's savings in financial assets have been steadily increasing over the last three years from 8.9% of GDP in 1995-96 to 10.8% in 1996-97 and further to 11.4% in 1997-98. However, in the past, the savings mobilized were not lent back to the households for shelter purposes. The reluctance on the part of the banks to extend credit for housing as a regular part of their business was basically due to their perceived role of financing working, capital needs of commerce, industry and trade. Yet another factor was that the banks did not want to tie up their short-term resources in extending long-term housing loans. Today, in India the commercial banks are required to earmark a minimum of 3% of their incremental deposits for extending to the housing sector. For the current year, 1999-2000, this works out to Rs 36,000 million (approx. US $ 827 million).

The housing finance companies (HFCs) are the main housing finance providers in India. Currently, 26 HFCs are approved by NHB for refinance. Among the 26, six HFCs have more than 90% market share. The top six include: Housing Development Finance Corporation (HDFC), Life Insurance Corporation Housing Finance (LIC), Canfin Homes (Canfin), GIC Housing Finance (GIC), SBI Home Finance (SBI Homes) and Dewan Housing Finance Corporation Ltd. (Dewan). The top six HFCs have grown at a Compound Annual Growth Rate (CAGR) of about 24% between 1994 and 1998, and cumulative disbursements as of March 1998 of Rs 19,200 crore (US$4.6 billion). HDFC continues to be the market leader with its market share (in terms of disbursements) having increased from 53% in 1994 to 69% in 1998. HDFC is the biggest player with a total 1998 resource base (total liabilities and net worth) of Rs 9,926 crore (US$2.8 billion).

The other sets of specialized housing finance institutions are the co-operative housing finance societies. They essentially have a two-tier structure. They are comprised of the Apex Cooperative Housing Finance Society (ACHFS) at the State level and the Primary

Cooperative Housing Finance Society (PCHFS) at the retail level. There are 25 State level Apex societies, and the number of registered cooperative housing finance societies in the country is 90,000.

Most housing finance institutions offer a standard, fixed rate mortgage to prospective borrowers. Usually, the housing loan can be repaid over a maximum period of 15 years. Repayment does not extend beyond the retirement age of a person (60 years) if employed or 65 years of age if self employed. Repayment of the loan is done through the equal, monthly installment method.

The lender is required to pay a tax to the Government on interest income at the rate of 2% per annum. The lenders usually pass on this tax burden to the borrower. The banks and the housing finance companies also levy a fee for processing the application, and it varies between 0.5% to 1% of the loan amount. They also charge what is known as an administration fee of 1% of the loan amount.

The interest rate on housing loans offered by the housing finance companies has been falling in the recent years, and as of the beginning of 2000 it reached the lowest in the last 17 years. The interest rate on a loan amount of Rs 500,000 (US $ 11,765), which used to be in the range between 14.5-15.5% a year ago, has come down 100 basis points. Similarly, there has been a 100 basis points across the board reduction in the interest rates for loan amounts beyond Rs 500,000. The Reserve Bank of India has given the freedom to commercial banks to fix the interest rates on term loans beyond Rs 200,000. These rates are related to commercial bank's prime lending rates, which is in the range of 12.5 to 13% per annum. Since the cost of funds to the banking system is lower than the cost of funds to the specialized institutions, their interest rates are comparatively lower than the rates charged by the specialized, housing finance institutions.

Housing Loans (in Rs million)

	1994-95	1995-96	1996-97	1997-98	1998-99
Commercial Banks	7,486	7,992	18,056	10,767*	14,972*
Housing Finance Companies	35,243	39,035	46,277	57,834	74,134
ACHFS	5,303	3,430	3,147	5,196	
ARDBs	264	385	387	730	1,127

Source: Vora * Allocation in respective years

Apart from the various financial institutions mentioned above, which act as retail lenders, the Central and the State Governments also support housing finance. The Central Government has also set up the Housing & Urban Development Corporation (HUDCO), a housing finance company, to finance and undertake housing and urban development programs, to develop land for satellite townships, and also set up building centers. The State Governments, besides implementing the social housing schemes formulated by the Central Government, also formulate their own schemes for providing houses to the poor.

The Life Insurance Corporation of India (LIC), as well as the General Insurance Corporation of India (GIC), support housing activity both directly and indirectly. LIC is statutorily required to invest 25 per cent of its net annual accretion in socially oriented schemes including housing. In June 1989, the LIC promoted a housing finance subsidiary, to lend directly to the public. GIC and its subsidiaries are required to invest 35% of their annual accretion by way of loans to socially oriented sectors. In July 1990, GIC established a separate subsidiary as a housing finance company to lend to the individuals directly and to provide funds for its operations.

Policy Developments

The housing finance system of India is poised for rapid growth and development. During the last few years, the market has seen significant growth reflecting a combination of economic growth, falling interest rates and financial sector deregulation. The growth of market-rate lending is likely to increase for several reasons including: (1) the introduction of a variety of fiscal incentives to borrowers and lending institutions; (2) the entry of major, new players into the mortgage lending business; (3) continuation of the favorable interest rate environment; and (4) development of new, institutional mechanisms to fund housing and re-allocate mortgage risk.

The entry of new lenders is a major new development. The dominance of housing finance by the HFCs has been due partly to restrictions previously imposed on the banking sector. These restrictions are being removed and the overlap and competition between sectors is increasing. As a result, bank lending for housing is rising rapidly. At the same time that banks are targeting housing lending, additional, significant competition to HFCs has arisen from large, wholesale funded institutions, such as HUDCO (a government agency), Industrial Credit and Investment Corporation of India (ICICI), and Industrial Development Bank of India (IDBI). These institutions have recently declared an avid interest in making retail, housing loans. In addition, the big players in non-housing, consumer finance, including Sundaram and Tata, are implementing major housing lending efforts.

The entry of new lenders has major implications for the funding needs of the sector. The HFCs have traditionally relied on bond finance and loans from the National Housing Bank (NHB). More recently, many HFCs have shifted their fund-raising efforts towards raising fixed deposits from the public. The new entrants have, by and large, access to low cost deposits (banks) or capital markets (non-bank institutions).

The NHB has played an important role in the development of the sector. Since its creation in 1988, the NHB has provided long-term funds to housing finance companies (HFCs), enabling them to expand both their volume of lending and term of individual loans. It has regulated and promoted these specialized, housing finance lenders. More recently, it has taken the lead in an important project to create the first Indian, mortgage-backed security.

Creation of a secondary mortgage market in India faces significant and well-known obstacles. The most important of these obstacles are the weak, legal position of the mortgage and the imposition of stamp duties from three to seventeen percent on the registration and transfer of mortgage loans. There is promise for improvement in this area. The Reserve Bank of India (RBI) has created a working group to identify and recommend legislative and regulatory changes to improve the environment for securitization. Some of the state governments have realized the importance of mortgage securitization and have reduced the stamp duty payable on the instrument of securitization to 0.1%.

The Finance Act of 1999 announced a number of benefits for housing, which led to a spurt in the growth of retail lending during the year. These benefits included an increase in the tax exemption limit for interest on housing loans for self-occupied houses from Rs 30,000 to Rs 75,000 and an increase in the depreciation rate on certain categories of corporate owned housing from 20% to 40%. In addition, scheduled commercial banks were required to earmark 3% (as against 1.5% earlier) of their incremental deposits for housing.

The Finance Act of 2000 has further enhanced benefits for individual homebuyers. Benefits under the current Finance Act include an increase in the tax exemption limit for interest on housing loans for self-occupied houses from Rs 75,000 to Rs 1,00,000, an increase in benefit for principal repayments on housing loans under Rs 10,000 to Rs 20,000 and exemption of capital gain tax for proceeds invested in a second house. These measures, together with the lower lending rates, stable property prices and increased income levels, have led to a substantial growth in retail business.

Recently, a number of initiatives have been taken to improve the access of a majority of the population to the formal finance sector. The Reserve Bank of India has set up a working group to study the functions of the Self-Help Groups (SHG) and Non-Governmental Organizations (NGOs). The study will examine their capacities for expanding activities and deepening their roles, linking SHGs with banks, and capacity building of NGOs etc. Similarly, the emergence of the microfinance sector is also of recent origin in India. A few community based financial institutions (CFIs) also emerged.

Sources and References

1. Asian Development Bank, Annual Report 1999
2. Diamond, D., “Prospects For Mortgage Securitization In India And The Potential Role For The ADB, Report for the Asian Development Bank, March 2000
3. Housing Finance Development Corporation, Annual Report 1998, www.hdfcindia.com
4. World Bank, www.worldbank.org
5. IMF: International Financial Statistics, 2000 www.imf.org
6. National Housing Bank, Annual Reports, 1997-1998
7. Vora, P.P., The Indian Housing Finance System, Housing Finance International, December 1999

Japan

Economic Background

				Yen	US$
Year	Exchange Rate Yen/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Billions)	Nominal GDP (Billions)
1990	144.79	93.44	3.06%	430,040	2,970.09
1991	134.71	96.49	3.27%	458,299	3,402.12
1992	126.65	98.16	1.73%	471,064	3,719.42
1993	111.20	99.40	1.26%	475,381	4,275.01
1994	102.21	100.09	0.70%	479,260	4,688.97
1995	94.06	100.00	-0.09%	483,220	5,137.36
1996	108.78	100.13	13.00%	500,310	4,599.28
1997	120.99	101.84	1.71%	507,852	4,197.47
1998	130.91	102.50	65.00%	495,211	3,782.84
1999	101.63	102.60	-0.19%	496,201	4,882.43

Source: IMF

In the wake of overheated economic performance in the late 1980's, Japan's bubble economy collapsed. Over the 1990s, the Japanese economy has dealt with sweeping financial and industrial reforms. Following the recession of 1992, the country experienced a recovery lasting four years, largely due to stimulative fiscal policies, only to fall once again. In 1998, GDP growth fell 3%, and in 1999, it dropped another 10%. Inflation has been virtually non-existent in the last 10 years, with prices actually falling in 1995 and 1999. Unemployment has experienced an upward trend over the entire decade. It peaked at 5% in 1999, a record for Japan; and the IMF expects it to go higher this year.

Japan's economic difficulties stem from trouble in their financial markets. The magnitude of bad debt held by Japanese banks sparked the 1992 recession and paved the way for wholesale reform of Japan's financial system. Initiated by Prime Minister Hashimoto in November 1996, the so-called "big bang" plan calls for rapid write-down of under-performing assets, increased oversight of institutions, accompanied with liberalization of capital controls and the introduction of previously prohibited financial instruments. These are all aimed at stabilizing and modernizing Japan's financial markets.

To support investment during the structural reforms, the Bank of Japan has maintained a "zero interest rate" policy. Since September 1995, the official discount rate has been held at 0.5%. Short-term, interest rates have declined accordingly, and since March 1999, they have been virtually zero, with long-term rates only slightly higher.

With the stabilization of the financial system, the Yen has recently strengthened. After weakening steadily from 1995 to 1998, the exchange rate bottomed at Y145/$ in August 1998. The Yen strengthened over 1999 to finish the year at Y102/$. However, this has hurt export performance in a country that relies heavily on international trade. As of August, the trade surplus for the year had dropped 9% in 1999 from the same period in 1998, even though the bilateral surplus with the U.S. had increased.

In spite of the economic challenges of the last 10 years, Japanese households are among the wealthiest and fiscally conservative in the world. Per capita, GDP is $36,539. Savings rates are extremely high, and debt burdens are extremely low, compared to income and expenditures. Personal bankruptcies are also very low; in 1997, they numbered only 600 per million in population (compared to 4,700 in the U.S).

Housing Market

In 1993, there were nearly 46 million dwellings in Japan. 59.8% of these dwellings were owner-occupied. By the end of 1999, the number of homes reached 50 million. The owner-occupied rate has drifted downward since the mid-eighties peak of 62.4%, a trend brought about by high property prices and the sluggish economy. In 1987 and 1988, over half of new housing starts were for rental units. However, this trend has reversed. By 1997, only 38% of new starts were for rental units with the slack being made up by homes built for sale.

In the 1990s, residential investment fell, particularly in the last few years of the decade. After average annual increases of 4.5% from 1993-96, residential investment fell 16.3% in 1997, 13.7% in 1998 and about 6% in 1999.

Housing Starts by Type of Use (thousands of units, %)

Year	Total Housing Starts	Owner-Occupied	Rental Housing	Employer-Supplied	Housing For Sale
1987	1,729	563	887	23	256
1988	1,663	497	842	25	299
1989	1,673	499	821	31	322
1990	1,665	474	767	37	387
1991	1,343	448	582	40	273
1992	1,420	482	687	35	217
1993	1,510	537	652	31	290
1994	1,561	581	574	28	378
1995	1,485	551	564	26	345
1996	1,630	636	616	26	352
1997	1,341	451	516	24	351

Source: Ministry of Construction (HSOJ

Housing prices steadily increased in the early part of 1990s and hit their highest figures at the end of 1997. With economic and financial crises at hand, housing prices decreased dramatically by the end of 1998. From 1990 to 1997, the prices of detached homes in Tokyo fell by an average of 1.5% per year. Condominium prices dropped even more - an average of 4.7%/year. Nevertheless, prices are still quite high by world standards. Ready-built houses in Tokyo still cost an average of 6.9 times annual income and condos cost 5.1 times annual income. As shown by the chart below, the housing prices had recovered somewhat by the end of 1999 and continue to increase in the early part of 2000.

Ready Built Houses/Condominiums

Year	Annual Income	Price	Price/ Income	Price	Price/ Income

1990	767	6,528	8.5	6,123	8.0
1991	828	6,778	8.2	5,900	8.1
1992	875	6,269	7.2	5,066	5.8
1993	854	5,873	6.9	4,488	5.3
1994	854	5,752	6.7	4,409	5.2
1995	856	5,737	6.7	4,148	4.8
1996	842	5,785	6.9	4,238	5.0
1997	853	5,864	6.9	4,374	5.1

Source: HSOJ 106

Mortgage Market

About half of mortgage lending in Japan comes from the public sector, and the other half comes from the private sector. Over 80% of public sector lending comes from the Government Housing Loan Corporation (GHLC). Most of the remaining public sector funding comes from the Pension Welfare Service Public Corporation (PWSPC). On the private sector side, the combination of city banks, regional banks and trust account banks provide about 75% of the total. Credit associations and labor banks provide about 20% of private sector funding, while insurance companies and financial institutions provide the rest.

The GHLC, established in 1950 as a special public corporation, is the largest mortgage institution in the world. Its objectives are to provide long-term capital at subsidized interest rates for the construction and purchase of housing to principally middle-income earners. As of 1999, the GHLC held Y 71.2 trillion of the outstanding balance of housing loans in Japan. This is 39 % of the Y 183 trillion total outstanding balance. Pension companies have another 8.3% of outstanding loans. The largest private sector lenders are city banks (19% of outstanding). New housing loans originated by GHLC in 1999 consisted of 550,000 loan totaling an estimated Y 1.2 trillion.

New Originations

Fiscal Year	1992		1993		1994		1995		1996		1997	
	Y Billion	%	Y Billion	%	Y Billion	%	Y Billion	%	Y Billion	%	Y Billion	%
Public Sector	7,909	42%	11,747	50%	14,883	53%	12,983	36%	14,355	45%	11,699	41%
GHLC	6,093	32%	9,443	40%	12,615	45%	10,784	30%	11,844	37%	9,607	34%
PWSPC	1,293	7%	1,677	7%	1,624	6%	1,575	4%	1,935	6%	1,543	5%
Other	523	3%	627	3%	644	2%	624	2%	576	2%	550	2%
Private Sector	10,870	58%	11,793	50%	13,375	47%	23,440	64%	17,528	55%	16,942	59%
Banks	6,899	37%	7,782	33%	9,275	33%	17,684	49%	13,153	41%	12,752	45%
Credit assoc	2,229	12%	2,430	10%	2,701	10%	4,292	12%	3,435	11%	3,451	12%
Life Insurance	1,138	6%	955	4%	738	3%	884	2%	661	2%	498	2%
Other	605	3%	627	3%	662	2%	580	2%	278	1%	241	1%
Total New Originations	18,779	100%	23,540	100%	28,258	100%	36,422	100%	31,882	100%	28,642	100%

Source: GHLC HSOJ 114

Outstanding Balance of Housing Loans (Trillion Yen)

Fiscal Year	1992	1993	1994	1995	1996	1997	1998	%

Public Sector	55.07	61.92	70.44	69.93	75.76	78.96	80.78	47%
GHLC	43.59	49.17	57	57.25	62.45	64.87	66.28	82%
PWSPC	8.41	9.35	10.02	9.51	10.19	10.48	14.33	18%
Other	3.06	3.41	3.42	3.17	3.12	3.61	0.00	-
Private Sector	77.54	79.31	80.77	89.39	89.41	89.78	91.82	53%
Banks	44.08	44.69	45.74	52.53	56.52	60.15	37.56	41%
Credit Association	10.7	11.4	12.19	14.18	15.46	60.15	0.00	-
Life Insurance	6.36	6.52	6.42	6.45	6.15	5.93	3.21	4%
Other	16.4	16.69	16.41	16.23	11.28	7.05	8.17	9%
Total	**132.61**	**141.24**	**151.21**	**159.32**	**165.17**	**168.74**	**172.6**	**100%**

Source: GHLC

GHLC mortgage terms vary depending on the particular program for which a borrower applies. The main criteria are based on the region, the type of structure and the floor size of the property. In 1998, a borrower with a newly-built wooden house under 175 square meters in a metropolitan area would receive a fixed rate mortgage for 10 years at 2.75%, and then adjust to 3.55% for the remaining 15 years of the mortgage.

In July 1994, the Ministry of Finance stopped regulating mortgage rates, allowing institutions to fix rates at their discretion (JHLS 2). This deregulation liberalized mortgage financing significantly. Since then, many new types of mortgage products have been offered. In addition to conventional fixed and variable rate products, offerings include convertible loans (after initial fixed periods of 3, 5, or 10 years) and floating rate loans indexed to various interest rates.

Almost 60% of outstanding loans were floating rate loans as of 1997. This represents a decline from nearly 70% in 1994, as many homeowners have recently locked in newer, low fixed rate products. Since 1990, private sector, fixed, mortgage rates have fallen from 8.3% to 4.7%. Start rates on variable rate, private mortgages have fallen from 8.5% to 2.6% over the same period. The typical LTV ratio on mortgages is 50-60%.

Interest Rates

Year	Interbank Money Market	Deposit Rate	Mortgage Fixed (5 year)	Mortgage Variable	Gov't Bond Yields Long-Term
1990	7.24%	3.56%	8.28%	8.5%	7.36%
1991	7.46%	4.14%	7.32%	6.9%	6.53%
1992	4.58%	3.35%	6.60%	5.70%	4.94%
1993	3.06%	2.14%	5.46%	3.80%	3.69%
1994	2.20%	1.70%	6.00%	4.00%	3.71%
1995	1.21%	0.90%	2.90%	3.25%	2.53%
1996	0.47%	0.30%	3.50%	2.50%	2.23%
1997	0.48%	0.30%	2.70%	2.50%	1.69%
1998	0.37%	0.27%	2.60%	2.50%	1.10%
1999	0.06%				

Source: IMF, GHLC

The securitization market has begun to develop in Japan. The first securitization law, the Ministry of International Trade and Industry (MITI) law became effective in 1993. Since 1997, asset securitization has accelerated for several reasons: 1) strong regulatory support continues to encourage it, 2) Japanese financial institutions can improve their regulated capital ratios, because securitization provides off-balance sheet treatment and 3) securitization provides alternative funding sources in a market facing liquidity problems.

The first, significant, mortgage-backed security issue was developed in 1999. Arranged by Bear Stearns and Sanwa Securities, the Y 50 billion issue is collateralized by 5,169 residential loans, and it has 4 senior classes and 1 mezzanine class. Sanwa Shinyo HOSHO KK, a subsidiary of Sanwa Bank, is the guarantor of the portfolio.

The lack of legal and regulatory framework has prevented the development of a Japanese mortgage-backed securities market. Recently, the legal impediments have been relaxed through the adoption of several pieces of new legislation including the Perfection Law that permits perfection against third parties of assignments of claims by filing a registration with a local Legal Affairs Bureau.

Policy Developments

The Housing Construction Planning Law, enacted in 1966, outlines the objectives of housing policy in Japan. Each 5-year plan targets housing goals ranging from resolving housing shortages to upgrading urban housing standards. The objectives of the 7th Housing Construction 5-year Program, covering 1996 to 2000, were: 1) the formation of good quality housing stock to meet the nation's needs, 2) the promotion of safe, comfortable urban life and living environments, 3) provisions which foster an active elderly society and 4) formation of good housing and living environment contributing to regional revitalization (HIJ 22). In this program, 7.3 million units were targeted for construction with specific goals for public funding, rental housing for the elderly, and subsidized private funding.

Sources and References

1. IMF Statistics, 2000
2. Bear Stearns, Japanese Housing Loans Securitization SHL 1999-1 Corporation Ltd., May 1999
3. Government Housing Loan Corporation, Housing Statistics of Japan 1998
4. Japan External Trade Organization, The State of the Japanese Economy – Statistics and Trends through 3Q 1999
5. International Monetary Fund, Japan: Economic and Policy Developments, October 1999
6. Central Intelligence Agency, The World Factbook, 1999 – Japan
7. Government Housing Loan Corporation, Housing and the Government Housing Loan Corporation, Annual Report 1998

Contacts

1. Government Housing Loan Corporation
   Research and Survey Dept.
   1-4-10 Koraku, Bunkyo-ku
   Toyko 112-8570 Japan
   Tel: 81.3.5800.8076
   Fax: 81.3.5800.8257
   http://www.jyukou.go.jp

Korea

Economic Background

				Won	US$
Year	Exchange Rate Won/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	716.40	74.06	8.58%	178,797,000	249,577.05
1991	760.80	80.94	9.30%	216,511,000	284,583.33
1992	788.40	85.99	6.24%	245,700,000	311,643.84
1993	808.10	90.09	4.77%	277,496,000	343,393.14
1994	788.70	95.69	6.22%	323,407,000	410,050.72
1995	774.70	100.00	4.50%	377,350,000	487,091.78
1996	844.20	104.93	4.92%	418,479,000	495,710.73
1997	1,695.00	109.58	4.44%	453,276,000	267,419.47
1998	1,204.00	117.82	7.51%	449,509,000	373,346.35
1999*	1,138.40	118.77	0.81%	483,777,800	424,962.93

Source: IMF; *Bank of Korea

With export-oriented industrialization, Korea enjoyed extensive growth, averaging over 8% per annum for more than three decades. However, the Asian financial crisis of 1997 revealed Korea's inefficient and undisciplined financial sector causing the Korean economy to experience many challenges in the latter part of 1990s. In 1996, the current account deficit increased to $23 billion, amounting to approximately 5% of GDP. The Asian crisis resulted in massive depreciation of the Korean won. The value of the won, which had been approximately 900 per Dollar in October 1997, fell to 1,960 won per Dollar toward the end of 1997. The total, foreign debt also increased from approximately $29 billion at the end of 1989 to $105 billion at the end of 1996. By early 1997, a large number of non-performing loans had accumulated, causing many banks to be insolvent. With this large corporate insolvency, combined with the loss of confidence by investors, a mismatch of supply and demand was created in the domestic foreign exchange market. By November of 1997, Korea was in a state of defaulting on its debts. Consequently, the government turned to the IMF to request a financial package.

Based on the agreement with the IMF, the Korean government pursued many economic and structural reforms to stabilize the financial and corporate sectors. To restore confidence in the financial system, actions were taken to dissolve unsound financial institutions. To gain further confidence, an injection of public funds was put into viable institutions, while the IMF insisted on efforts to create efficient operations and a stable financial structure. The government also made efforts to increase efficiency in the financial sector by downsizing and privatizing appropriate public enterprises as well as discontinuing its control of the interest rates.

The Korean economy has made substantial progress, and it is quickly recovering from its difficulties. GDP, which dramatically decreased in 1997 and 1998, was back into positive growth at a rate of 4.6% in the first quarter of 1999. The exchange rate has been stabilizing since the end of 1998 with 1,138 won per $1 at the end of 1999. Inflation has also fallen substantially, indicating a recovery for the Korean economy.

Housing Market

The total housing stock, as of 1998, is estimated at 10.8 million units. The official census figures were 9.5 million units in 1995 and 7.3 million units in 1990 with the homeownership ratio being approximately 60%. Based on housing permits, the average, annual, housing production was about 621,000 during 1992-96 period. This figure declined to 596,400 in 1997 and further declined to 306,000 in 1998.

Housing prices have steadily increased in the early part of 1990s and hit their highest figures at the end of 1997. With economic and financial crises at hand, housing prices decreased dramatically by the end of 1998. As shown by the chart below, the housing prices had recovered somewhat by the end of 1999 and continue to increase in the early part of 2000.

Housing Price	Nov. 1996	Oct. 1997	Nov. 1998	Aug.1999
Seoul, Purchase Price	5,950	6,630	5,340	5,800
Seoul, Chonsei Deposit	3,070	3,200	2,140	2,890
New towns, Purchase Price	4,350	5,670	4,740	5,400
New towns, Chonsei Deposit	2,250	2,470	1,610	2,710
Exchange Rate (won/$)	829	965	1,234	1,185

Source: Bu-dong-san Bank (thousand won per 3.3 sq. meters)

The Ministry of Construction and Transportation (MOCT) revealed its plans in August of 1999 to build between 500,000 and 600,000 houses, annually, for 3 consecutive years by the year 2002. It also announced a deregulation plan on non-construction zones in April of 2000. With these legislative changes, and with financial revitalization, the Korean housing market is expected to flourish in the next few years.

Mortgage Market

Historically, the housing finance market has been largely dominated by the public sector. The National Housing Fund (NHF), the Korean Housing Bank and Kookmin Bank arranged all public funding. Life insurance companies, commercial banks and specialty finance companies provided private housing loans. These mortgages were primarily available to low and lower-middle income buyers with up to 40% of loan to value (LTV) ratios. Until 1997, the government controlled interest rates, keeping them below market and forcing the use of LTV as a rationing device.

Mortgage Debt Outstanding (billion won)	1995	1996	1997	1998
Public Sector				
National Housing Fund	19,300	22,872	26,456	29,486
National Agricultural Cooperatives	1,275	1,562	1,869	2,077
Private Sector				
Housing and Commercial Bank	14,192	15,076	16,839	17,157

Commercial Banks	2,936	3,111	3,297	3,020
Life Insurance Companies	1,143	1,202	2,057	762
Installment Finance Companies	0	1,148	3,143	2,178
Total (billion won)	38,846	44,971	53,661	54,680

Source: Restructuring of the Housing Finance System and Broadening linkage with the Capital Market: "The Housing Finance Market in Korea", Housing and Commercial Bank. The Korean Experience; p52

With the lack of readily available funds and complex application processes, many of the middle to upper class homebuyers had to resort to making all cash transactions, and many middle to lower-middle class households had to resort to rental housing through the "Chonsei" system. The Chonsei system is a rental contract where the tenant makes an up-front deposit, amounting usually to about half of the price of the house for a one or two year contract. Upon termination of the rental contract, through purchase or move, the lump sum amount is returned to the tenant.

Interest rates were de-regulated in 1997 and commercial banks were allowed to make mortgage loans. In addition, the Korea Housing Bank was privatized, becoming the Korea Housing and Commercial Bank (H&CB).

In an effort to inject additional funds into the housing market, the Korean government passed several laws starting in 1997, allowing for an establishment of the secondary mortgage market. A newly created conduit, The Korea Mortgage Corporation (KoMoCo), was set up as a joint venture by The Ministry of Construction and Transportation, Kookmin Bank, Korea Exchange Bank, H&CB, Samsung Life Insurance Co., and IFC. KoMoCo's mandate is to securitize Housing Fund Loans as well as loans from private banks and other financial institutions. NewState Capital and The Korean Mortgage Corporation issued mortgaged-back securities worth 58.9 billion and 400 billion won respectively at the beginning of 2000.

All of these changes,, combined with privatization of previously public enterprises,, are enabling revitalization of the housing finance industry. The housing finance market is expected to grow substantially within the next few years.

Policy Developments

Significant policy changes with the goal to revitalize the real estate and housing finance industries have been made since 1997.

- Privatization of the Korea Housing Bank – Initially set up by the government in 1967 to provide a stable source of funds for housing, Korea Housing Bank held over 75% market share on new housing loans in 1995. As a result of the government's commitment for a more efficient financial sector, KHB was privatized under the new name of Housing & Commercial Bank (H&CB) in 1996.

- ABS and MBS Laws – The Korean government recently passed these two laws in relations to the housing market. These laws permit securitization of mortgages for the first time in Korea.

- MBS Company Act 1999 – Recently passed law allowing for an establishment of Special Purpose Corporation to issue MBS in Korea.

- MBS Tax Reduction Plan – The Ministry of Finance and Economy has plans to deduct a portion of the tax rate for small-sum purchasers of MBS to attract institutional as well as retail investors to the MBS market.

- Maximum LTV Ratio – Starting in 1999, the Korean government increased the maximum Loan-to-Value Ratio from 40% to 65%.

- Non-construction Zone Deregulation Plan – The government has plans to loosen the restrictions placed on non-construction zones to support the construction and real estate industries.

- New Housing Plan – The Ministry of Construction and Transportation has announced its plans to build 500,000 to 600,000 houses for three consecutive years to assist low-income buyers or renters.

Sources and References

1. International Monetary Fund, Statistics 2000
2. CIA World Fact Book, "Korea, South" Online: Internet. August 2000. Available: http://www.odci.gov/cia/publications/factbook/geos/ks.html
3. The Bank of Korea. Online: Internet. August 2000. Available: http://www.bok.or.kr/
4. Ministry of Construction and Transportation. Online: Internet. May 2000. Available: http://www.moct.go.kr/mcte/e_index.htm
5. Staff Writer, The Korea Herald. "Ministry unveils deregulation plan on non-construction zones" Online: Internet. May 2000. Available: http://www.koreaherald.co.kr/
6. Staff Writer, The Korea Herald. "NewState Capital issues nation's first MBS" Online: Internet. May 2000. Available: http://www.koreaherald.co.kr/
7. Staff Writer, The Korea Herald. "KoMoCo issues mortgage-backed securities worth 400 billion won" Online: Internet. May 2000. Available: http://www.koreaherald.co.kr/
8. Korea Trade Promotion Corporation (KOTRA), Information about Korea – Economy. Online: Internet. May 2000. Available: http://www.kotra.or.kr/eng/info/main.php3
9. Kim, Kyung-Hwan. International Housing Finance Sourcebook – Korea.
10. Lee, Joong-hee and Lee, Sohan. International Finance Corporation, Restructuring of the Housing Finance System and Broadening Linkage with the Capital Market: The Korean Experience. 1998.
11. BeVier, Michael. International Financial Corporation, Korea Mortgage Corporation. 1999.
12. Korea Mortgage Corporation. Information Package. 2000.
13. NewState Capital. Study Tour to the U.S. – Korea Economic and Housing Market Report. 2000.

Malaysia

Economic Background

Year	Exchange Rate currency/US$	Consumer Price Index	Change In Consumer Prices	Ringgit Nominal GDP (Millions)	US$ Nominal GDP (Millions)
1990	2.70	80.88		115701	42812.58
1991	2.75	84.40	4.35%	132381	48138.55
1992	2.55	88.43	4.77%	148537	58249.80
1993	2.57	91.55	3.53%	165206	64282.49
1994	2.62	94.96	3.72%	190274	72623.66
1995	2.50	100.00	5.31%	218671	87468.40
1996	2.52	103.49	3.49%	253732	100687.30
1997	2.81	106.24	2.66%	281889	100316.37
1998	3.92	111.84	5.27%	284474	72569.90
1999*	3.80	114.91	2.74%	300,349	79,039

Source: IMF; *Central Bank of Malaysia

Like many countries in Asia, Malaysia was enjoying prosperous growth until the financial crisis in the region greatly impacted its economy. Despite the efforts made by the government to restore stability and confidence in financial markets by tightening the monetary policy, equity prices and the exchange rates continually fell. By the end of 1997, the Malaysian currency had fallen 35 percent from the previous year, and the Kuala Lumpur Stock Exchange composite index fell 52 percent. In order to stabilize the economy, the government made a radical decision to suspend convertibility of the ringitt, which may impact future flows of foreign investment.

Business and consumer confidence declined, causing contraction of consumer and investment spending by 1998. This led to difficulties for institutions in the financial sector as they faced the rising of non-performing loans and capital losses, simultaneously causing extreme conservatism in lending practices.

Starting in 1998, the Malaysian government began making policy changes to support strengthening the financial system. It purchased non-performing loans by increasing government spending, indexed the exchange rate of the ringgit to the Dollar, reduced interest rates, and also implemented the restructuring of financial and corporate sectors for better controls for long-term stability of its economy.

Interest Rates

Year	Money Market	Treasury Bill	Deposit Rate	Base Lending Rate
1990	6.81%	6.12%	5.90%	7.17%
1991	7.83%	7.27%	7.18%	8.13%
1992	8.01%	7.66%	7.97%	9.31%
1993	6.53%	6.48%	7.04%	9.05%
1994	4.65%	3.68%	4.94%	7.61%
1995	5.78%	5.50%	5.93%	7.63%

1996	6.98%	6.41%	7.09%	8.89%
1997	7.61%	6.41%	7.78%	9.53%
1998	8.46%	6.86%	8.51%	10.61%
1999	3.38%	3.53%	4.21%	7.29%

Source: IMF

By the end of 1999, most sectors of the Malaysian economy were well on their way to recovery. Benchmark index and market capitalization had doubled in the Kuala Lumpur Stock Exchange since the previous year.

Housing Market

With the decline of consumer confidence, asset prices, including property value, declined during the financial crisis. The Malaysian House Price Index (IHRM) declined by 9.4% in 1998 from the previous year. With the economy on its way to recovery, the IHRM declined by only 2.3% in 1999, compared to 1998, and the residential prices are expected to fully recover by the end of 2000.

House Price Indicators (Types of Housing)

Year	IHRM	Terraced	Semi-detached	Detached	High-Rise Unit
1990	4.1	5.3	4	1.3	8
1991	25.5	13.5	10	14.3	7.2
1992	12.2	8.8	7.5	10.1	0.1
1993	4.9	4.4	3.3	7.5	-1.4
1994	8	8.7	6.5	12	6.1
1995	18.4	13.1	9.8	15.7	4.2
1996	12.9	10.2	8.1	14.1	-1
1997	1.9	10	2.9	4.3	-4.8
1998	-9.4	-4.8	-8.1	-13.6	-6.2
1999	-2.3	-3.5	-4.4	-6.7	-3.7

Source: Department of Valuation and Property Services

In January of 1999, a policy was introduced where banking institutions were no longer allowed to fund developments on new, residential properties costing more than RM 250,000 per unit. This policy was intended to make sure that proper allocations of funds occurred in the sector of housing that needed an increase in supply.

In 1999, a second, home ownership campaign was launched to clear out the excess stock of residential properties amounting to RM39 billion. 21.6% of the offered properties were sold with total market worth of RM 2.1 billion.

Construction Sector Indicators

	Sales & Advertising Permits		Housing Approvals	Loans for construction (RM million)	
Year	New	Renewals		New	Outstanding
1995	717	906	113,183	16,084.5	20,232.9
1996	729	930	115,540	19,393.5	27,787.2
1997	867	919	188,400	18,631.9	42,615.9

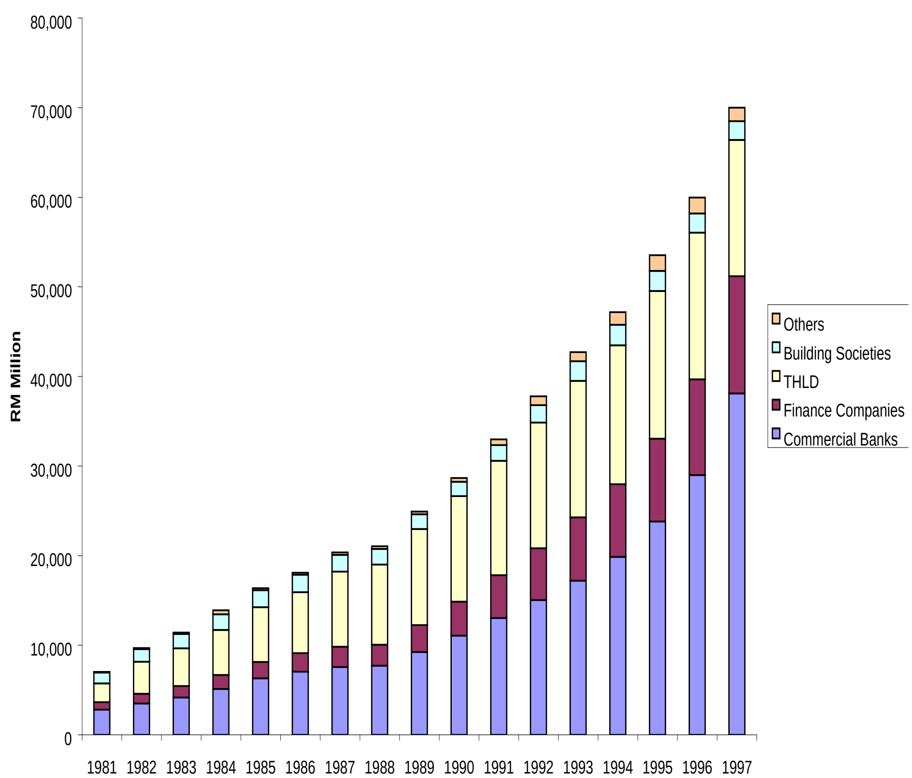
1998	612	1,255	194,092	5,619.8	45,091.7
1999	705	1,102	183,041	7,893.7	43,646.8

Source: Department of Valuation and Property Services

As most of the sectors in Malaysia's economy are recovering, the construction sector is still lagging as the only sector to show two, consecutive years of decline. However, as a percentage of total loans, loans made against properties increased from 35.1% in September of 1998 to 36.8% for the same period in 1999. The percentage of loans for residential property increased from 9% to 11.5% during the same period.

Mortgage Market

The building societies were the largest originators of housing finance in Malaysia during the early 1970s. Since then, commercial banks and financial companies as well as the Treasury Housing Loans Division (THLD) have emerged as major players in the housing finance market, resulting in the loss of market leader position of these building societies. From 1986 to 1996, the stock of outstanding, housing loans grew at a 13% annual rate. This was significantly higher than GDP growth or inflation rates. At the end of 1997, mortgage debt-to-GDP stood at 24.8%, a relatively high figure for an emerging market.



Source: Cheng 1998, Chiquier 1999

In 1986, Cagamas Berhad, a secondary mortgage corporation, was created to act as the intermediary between the primary lenders, and the ultimate investors by purchasing housing and other mortgage loans, and issuing debt securities to fund its purchases. It functions as a liquidity facility providing short and medium term finance and capital market access to mortgage lenders. Cagamas purchases mortgage loans from mortgage originators, with full recourse, at a fixed or floating rate for 3 to 7 years. This is in effect a secured financing with Cagamas, looking first to the credit of the financial institutions when mortgage loans default. Cagamas issues unsecured debt securities to investors, in the form of fixed or floating rate bonds, short-term notes, or Cagamas Mudharabah (Islamic) Bonds.

At the end of 1999, the total volume of debt securities issued by Cagamas amounted to RM 19,419 million, representing 25.1% of the outstanding housing loans of the financial institutions. Cagamas is by far the largest and the leading issuer of private debt securities in Malaysia, receiving the highest credit ratings by the two domestic rating agencies. Cagamas plans to move closer to becoming a true conduit by beginning non-recourse (or limited recourse) purchase in 1999. It plans to fund these purchases through issuance of long-term, fixed rate, multi-tranche securities.

Sources and References

1. International Monetary Fund. Statistics, 2000. Available: http:// www.imf.org
1. Bank Negara Malaysia. Available: http://www.bnm.gov
2. Malaysian Department of Valuation and Property Services
3. Asian Development Bank, Asian Development Outlook 2000
4. Cheng, Huang Sin. Secondary Mortgage Market and Capital Market in Malaysia: Case Study, 1996.
5. Lea, Michael and Loïc Chiquier. Secondary Mortgage Market Development in an Emerging Market: the Case of Malaysia. World Bank, 2000.
6. CIA the World Factbook 2000 Malaysia
7. Cagamas Berhad. Available: http://www.cagamas.com.my/

New Zealand

Economic Performance

Year	Exchange Rate NZ$/US$	Consumer Price Index	Change In Consumer Prices	New Zealand$ GDP (Millions)	US$ GDP (Millions)
1990	1.68	90.36	5.51%	72,248	43,005
1991	1.73	91.87	1.67%	72,277	41,779
1992	1.86	92.81	1.03%	74,578	40,096
1993	1.85	94.13	1.42%	80,824	43,689
1994	1.69	96.40	2.40%	86,556	51,217
1995	1.52	100.00	3.74%	91,461	60,172
1996	1.45	102.30	2.30%	94,940	65,476
1997	1.51	103.50	1.17%	98,025	64,917
1998	1.87	104.83	1.29%	98,913	52,895
1999	1.89	104.70	-0.12%	102,198	54,073

Source: IMF

After years of being dependent on the British market, New Zealand has successfully repositioned itself as a more developed, free market economy. With heavy emphasis on trade, they are becoming a leading, global competitor in world markets. Such strong reliance on trade has made New Zealand especially vulnerable to other international markets like Asia, Europe, and the United States. However, the future growth of the New Zealand economy will rely heavily on export performance.

New Zealand has been recently battling steep drops in the value of its currency. The New Zealand Dollar has been close to its lowest level in history. Considering its average of NZ$1.45 per US$ in 1996 and its current rate in Oct 2000 of NZ$2.09 per US$, the New Zealand Dollar has substantially depreciated by some 44% in four years against the US Dollar.

New Zealand’s economy shown evidence of a solid growth phase throughout the 1990s. At the beginning of the decade, GDP was at NZ$72,248 and grew steadily faster than the rate of inflation. By the end of the decade, GDP totaled approximately NZ$102,198. However, there was evidence of a slump towards the end of the decade. Concurrent with the Asian financial crisis, growth was at its lowest between 1997 and 1998 at about 1%.

Tight monetary policy has benefited New Zealand with a decade of low inflation rates, the lowest in the industrial world. 1990 started off with the decade’s inflationary peak at 5.51%. Rates began to decline, but rose slightly in 1995 up to 3.74%, and began a downward trend again with 1999 ending in negative inflation, -0.12%.

Housing Market

Single, detached housing dominates New Zealand's housing stock. An average modern New Zealand home is single story with approximately 150 square meters in total area. Rates of home ownership are generally high, relative to world standards. According to the 1996 census, the home ownership rate was 71% of the total population. This would reflect the general affordability of housing in the New Zealand market at this time, and the fact that housing is the main area of investment for much of the habitants.

The total number of occupied private and non-private dwellings in New Zealand was 1,283,994 in 1996. Out of this total, 1,276,332 were occupied private dwellings. Of the total occupied private dwellings, 864,060 were owned with or without a mortgage. That represents 68% of all occupied private dwellings in New Zealand.

Market Share of State/ Private New Homes

Current Year	Government	Private
1991	5.51%	94.48%
1992	3.55%	96.44%
1993	1.29%	98.71%
1994	1.40%	98.60%
1995	0.10%	99.90%
1996	0.20%	99.80%
1997	0.50%	99.50%
1998	0.60%	99.40%
1999	0.60%	99.40%

Source: Statistics New Zealand

The figures above mirror the overall affordability of housing in the private sector and a stable, growing economy. More and more customers are opting for and/or qualifying for new homes built for the private sector. In 1991 government-sponsored new housing construction accounted for 5.51% of all new housing projects. By 1999, government-sponsored new housing accounted for less than 1% of construction projects.

However, more recent indicators suggest that home affordability is declining. In the 2rd quarter of 2000, home affordability declined by 7.2%. The median price of a home was at NZ$172,000 in the 2nd quarter. This is up from NZ$169,000 from the previous year

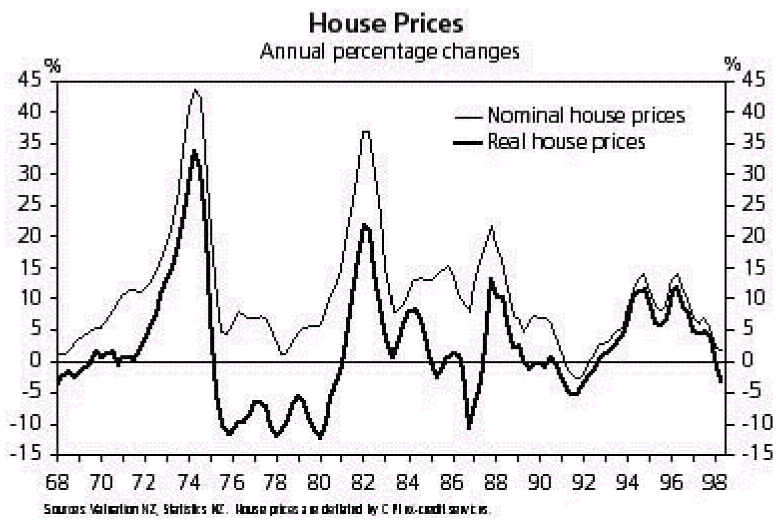
The construction industry in New Zealand is often measured by building consents (permits) terms. The following figures show the new dwelling construction trends over the past 10 years.

- The industry peaked in 1995 with 23,681 consents issued.
- The construction industry slowed by 13% since 1995 with a decreasing trend ending the decade at 20,695 consents being issued.
- Further analysis of the figures reveal that apartment consents were on the rise, from 1,195 in 1995 to 3,353 in 1999, while non-apartment consents have dropped over the decade, from 21,554 in 1991 to 19,864 in 1999.

The increase in construction of apartments can be attributed to a change in zoning laws. These changes were conducive to more dense concentration of occupants within buildings and the enhancement of waterfront property.

Year	Consents/ Permits Issued
1990	22,851
1991	20,820
1992	17,563
1993	17,905
1994	19,361
1995	23,681
1996	21,256
1997	22,418
1998	22,565
1999	20,695

Source: Statistics New Zealand



Mortgage Market

Housing Finance is provided through the following government housing agencies:

- Housing Corporation of New Zealand (HCNZ):
  HCNZ provides housing loans for those low income households which have difficulty obtaining loans in the private sector. It also provides home improvement loans and refinancing assistance, a rural lending program and facilitates selling Housing New Zealand rental houses to tenants. Total loan assets at the end of 1999 were approximately NZ$22 million.
- Housing New Zealand, a Crown-owned company, is the largest provider of rental houses in New Zealand. HNZ also manages the government's Right-to-Buy (Home Buy) plan, in which tenants can buy the property they rent, or an alternative vacant Housing New Zealand property. All properties are sold at a price determined by an independent registered assessor. Customers may be eligible for a suspensory loan (administered by the Housing Corporation of New Zealand). There were 566 Home Buy sales for the year as of June 1998.

Interest Rates

Year	Money Market	Deposit Rate	First Mortgage Housing Rates*	Avg. Variable Mortgage Interest Rates*	Treasury Bill Rate	Gov't Bond Yields (Long Term)
1990	12.61%	11.65%	15.20%	15.07%	13.78%	12.46%
1991	7.59%	8.93%	11.30%	12.64%	9.74%	10.00%
1992	7.59%	6.58%	8.90%	9.81%	6.72%	7.87%
1993	4.96%	6.24%	7.75%	8.71%	6.21%	6.69%
1994	9.44%	6.38%	10.19%	8.40%	6.69%	7.48%
1995	8.77%	8.49%	10.41%	10.80%	8.82%	7.94%
1996	7.89%	8.49%	10.05%	10.89%	9.09%	8.04%
1997	8.84%	7.26%	9.94%	9.82%	7.53%	7.21%
1998	4.91%	6.78%	6.50%	9.43%	7.10%	6.47%
1999	5.63%	4.56%	7.24%		4.60%	6.13%

Source: IMF; * Reserve Bank of New Zealand

Mortgage rates began to decline from 1996 to 1998. As a result, the housing market had a momentary recovery when sales reacted to the lower rates. The housing market activity so far in the year 2000 is at its slowest since the 1998 Asian crisis. Home loan rates were slashed in hopes of stimulating the housing market by raising customer-borrowing confidence.

The rate of default is slightly lower in New Zealand than in most countries. A very strong default deterrent can be attributed to the fact that recourse of New Zealand home loans generally goes to the borrower. In the event of mortgage default, all of the borrower's assets are exposed.

New Zealand financial institutions offer a wide variety of home loan products. All claim to give the borrower more control over their money and each plan can be customized to meet individual needs of the customer. Some of the Leading Mortgage lenders in New Zealand are as follows:

- **ABN AMRO** Operating as a subsidiary of ABN, the Australian Mortgage Securities Ltd. (AMS) is a top player in the wholesale mortgage markets of Australia and New Zealand. AMS has several functions. They partake in product development, loan funding and transactional processing services for a wide range of mortgage managers. AMS is one of the largest issuers of Mortgage Backed Securities in this region.
- **Auckland Savings Bank** (ASB): With over 150 years of serving New Zealand, ASB has a history of experience with mortgage finance in New Zealand dating back to the 19^{th} century. In the early 1850s ASB began to offer mortgage financing. At this time it was not widely popular, but in due time it became one of its most sought-after services.
- **ANZ New Zealand** ANZ offers a variety of mortgage loans catering to various needs of borrowers. These include a standard variable loan, ANZ Money Saver, which also is a variable rate loan, and ANZ FlexiPlus, which is a revolving line of credit.

- **Bank of New Zealand:** Also offers a wide, flexible range of mortgage products. Some of these types are Rapid Repay, Global Plus, which allows you to earn frequent flyer miles on your home loan balance, standard, tailored, interest only, revolving credit lines, and 5% down payment loans.
- **National Bank of New Zealand** Home loan products include their Thoroughbred Flexible loan, which gives the borrower an option to pay interest only or payoff as much as they would like, fixed rate loans, floating rate, or a combination of the both.
- **Westpac Banking Corporation** (WBC) Offers fixed, floating, and capped rates for their home loan products. In 1996 Westpac NZ merged with Trust Bank NZ. The new name was called Westpac Trust. In June of 1999, their total outstanding mortgage balances totaled NZ$824.2 million. WBC is also the parent company for Westpac Securities Administration, who is a top issuer of mortgage backed securities in the country.

Sources and References

1. International Monetary Fund. IMF Statistics, 2000
2. "Country Real Estate Profiles," 1999 Annual Convention Global Real Estate Forecast Sessions, Presented by Certified International Property Specialists.
3. Reserve Bank of New Zealand. Available: http://www.rbnz.govt.nz
4. The Housing Corporation of New Zealand. Available: http://www.hcnz.co.nz
5. CIA – The World Factbook 2000 – New Zealand. Available: http://www.odci.gov/cia/publications/factbook/geos/nz
6. "Westpac Securities Administration Ltd., WST Funding Trust New Zealand Sub-Series No.2 Ratings." Fitch IBCA, 20 July 1999. Available: www.fitchibca.com
7. ABN-AMRO Investment and Wholesale Banking. Available: http://www.abnamro.com.au/
8. Auckland Savings Bank (ASB). Available: http://www.asbbank.co.nz/
9. ANZ Banking Group: New Zealand. Available: http://www.anz.com/nz/default.asp
10. Bank of New Zealand. Available: http://www.bnz.co.nz/
11. National Bank of New Zealand. Available: http://www.nationalbank.co.nz/
12. Westpac Banking Corporation: Available: http://www.westpactrust.co.nz

Contacts

1. Southern Cross Building Society
   Barrie Collett, General Manager
   PO Box 554
   Auckland, New Zealand 1001
   Tel: 64.09.303.1004
   Fax: 64.09.303.1381
   Email: southernxbuilding@clear.net.nz

Philippines

Economic Background

				Peso	US$
Year	Exchange Rate Peso/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Billions)	Nominal GDP (Billions)
1990	24.31	62.11		1,077.24	44
1991	27.48	73.60	18.5%	1,248.01	45
1992	25.51	79.92	8.59%	1,351.56	53
1993	27.12	85.42	6.88%	1,474.46	54
1994	26.42	92.56	8.36%	1,692.93	64
1995	25.71	100.00	8.04%	1,905.95	74
1996	26.22	109.01	9.01%	2,171.92	83
1997	29.47	115.15	5.63%	2,423.64	82
1998	40.89	126.70	10.03%	2,662.41	65
1999*	39.09	135.17	6.69%	2,976.57	76

Source: IMF; *Central Bank of Philippines

The Philippines has faced many difficulties resulting from the weather, national poverty, as well as the Asian financial crisis. The El Niño drought of 1997 and 1998 heavily impacted the agriculture sector, creating a sharp downturn in its overall economy in 1998 and the beginning of 1999. The economy recovered somewhat in 1999, but it was mainly attributed to the increase in output in the agriculture sector with a growth of 6.6% since the drought. The impact of the Asian financial crisis is still affecting the overall economy. Despite the fact that the services and retail sectors were resilient during the crisis, the overall economy only experienced mild growth with a GDP growth rate of 3.2%. The main reason for this slow growth was due to the lack of performance in the industry sector, which only grew .5%.

Since the crisis, consumer-demand for nonfood manufactured items have weakened, the construction sector has also contracted causing over-capacity and an increased number of non-performing loans. As shown below, interest rates were lowered to encourage credit demand. Several economic and policy changes were also in the works to restore investor confidence.

	Interest Rates				Gov't Bond Yields	
Year	Interbank Money Market	Treasury Bill	Deposit Rate	Ave. Common Lending Rate	1-year	10-year
1990	14.80%	23.67%	19.54%	24.12%		
1991	15.70%	21.48%	18.80%	23.50%		
1992	16.70%	16.02%	14.27%	19.48%		
1993	13.70%	12.45%	9.61%	14.68%		
1994	13.40%	12.71%	10.54%	15.06%		
1995	12.10%	11.76%	8.39%	14.68%	13.61%	
1996	12.60%	12.34%	9.68%	14.84%	13.36%	16.00%
1997	17.90%	12.89%	10.19%	16.28%	14.35%	16.96%

1998	13.80%	15.00%	12.11%	16.78%	17.40%	19.00%
1999	10.80%	10.00%	8.17%	11.78%	11.25%	15.23%

Sources: IMF, Bangko Sentral ng Pilipinas (BSP)

However, the economic reform efforts have been not been implemented as planned. Many of the reforms have been delayed, specifically in the banking and financial sectors, slowing down the economic recovery. Unemployment and the number of non-performing loans continue to be at a high level. At the same time, industrial activity, demand for credit, and foreign private capital inflows have all been low.

Housing Market

Residential Building Construction

	First Half of 1996	First Half of 1997
Single	28,951	28,520
Duplex	1,299	1,165
Apartment	1,680	7,123
Other	194	662
Total	32,124	37,470

Source: Republic of the Philippines, National Statistics Office

New Residential Building Constructions (1997)

Year	Number Started	Floor Area (sq.m.)	Value (P1,000)
1997 1st QTR	17,760	1,737,599	7,894,745
1997 2nd QTR	19,710	1,814,939	8,080,776
1997 3rd QTR	23,354	1,773,799	9,418,548

Source: Republic of the Philippines, National Statistics Office

Mortgage Market

The estimated size (outstanding balance) of the mortgage market (commercial plus residential) in 1997 was P300 billion with commercial banks and thrifts accounting for P200 billion, private insurance companies for P13 billion and the government (including Pag-IGIB) P90 billion. Commercial banks have approximately P 135 billion in residential loans outstanding with nearly 2/3 in the form of subdivision development and condominium construction lending. The largest private mortgage lender is the Bank of the Philippine Islands which had P14.4 billion outstanding at the end of 1996.

A government mortgage insurance fund, the The Home Insurance and Guaranty Corporation (HIGC) insures most commercial bank mortgage loans. As of 4/30/98, it had guaranteed P 35.2 billion in outstanding balance of loans (about 1/3 of which are construction and development loans). The volume of new guarantees issued in both 1996 and 1997 was approximately P8.5 billion.

The largest overall mortgage lender in the Philippines is the Home Development Mutual Fund, known by its Phillipine acorynm as Pag-IGIB. It is a government pension fund formed to address the housing needs of private sector wage earners. The Fund provides loans at below market rates of interest to lower income households.

Private housing finance in the Philippines has been mostly targeted at high-income households. One of the leading lenders, Bank of the Philippine Islands, only originates mortgage loans over P400K. These residential mortgages are made for amounts up to 70% of the appraised value of the property and for up to 20 year terms. Mortgages are also made for lot purchases, for construction loans for individuals to build houses on lots already owned, and for refinancing.

Sources and References

1. International Monetary Fund, IMF Statistics, 2000
2. CIA the World Factbook 2000 the Philippines
3. Republic of the Philippines, National Statistics Office
4. Asian Development Bank, Asian Development Outlook 2000
5. Bank of the Philippine Islands
6. National Economic and Development Authority – the Philippines
7. Ministry of Finance – the Philippines
8. Development Bank of the Philippines
9. Lea, Michael. Pag-IGIB/Urban Bank Housing Finance Proposal Assessment. August 1998
10. Gallardo, Joselito. Rationalizing Housing Finance and Developing Capital Markets: The Philippine Experience. January 1998.

SINGAPORE

Economic Background

Year	Exchange Rate Singapore $ /US$	Consumer Price Index	Change In Consumer Prices	Singapore $ Nominal GDP (Millions)	US$ Nominal GDP (Millions)
1990	1.74	92.90	3.4%	66,464	38,099
1991	1.63	96.10	3.4%	73,947	45,352
1992	1.64	98.30	2.3%	79,960	48,611
1993	1.61	100.50	2.3%	93,102	57,899
1994	1.46	103.60	3.1%	106,677	73,031
1995	1.41	105.40	1.7%	118,195	83,571
1996	1.40	106.90	1.4%	128,727	91,961
1997	1.68	109.00	2.0%	140,466	83,835
1998	1.66	108.80	-0.3%	138,529	83,426
1999	1.67	109.20	0.4%	143,981	86,423

Source: Singapore Department of Statistics

Singapore is a small, well-developed country with strong service and manufacturing sectors and excellent international trading links. With an open market business environment and its emphasis on investment towards education and technology, Singapore has enjoyed solid growth for many years. However, impacted by the Asian economic crisis, lowering of demand and exchange rate depreciation has decreased its exports to the rest of Asia. The crisis also reduced regional lending as well as stock market and foreign exchange market activities. In addition, lower consumer sentiment and a decrease in tourism caused the retail sector to weaken. All of these factors contributed to the decrease of real gross domestic product (GDP) from its 1990's range of approximately 12% to 1.5% in 1998, the lowest growth rate since 1985. However, the strength of the economy and timely policy responses allowed Singapore to weather the 1998 Asian crisis better than other countries in the region.

Singapore's favorable performance can be attributed to a few factors. With a surplus budget, averaging 5% of GDP during fiscal years 1990-1998, Singapore had a substantial level of fiscal reserves. Monetary policy focused on the exchange rates and price stability, causing inflation to average about 2% during the period between 1990 and 1998. A strong and skilled labor market, open trade system, and properly supervised banking system all contributed to a more stable economic environment.

Interest Rates

Year	Interbank Money Market	Prime Lending Rate	Deposit Rate	Mortgage Rates: Finance Co. 15 Year Housing Loans	Gov't Bond Yields: 1-year	Gov't Bond Yields: 10-year
1990	4.88%	7.73%	4.67%	7.36%		
1991	3.25%	7.10%	4.63%	7.36%		
1992	2.19%	5.55%	2.86%	6.64%		
1993	3.31%	5.34%	2.30%	6.48%	1.45%	

1994	4.38%	6.49%	3.00%	7.05%	2.67%	
1995	2.44%	6.26%	3.50%	6.95%	2.00%	
1996	3.38%	6.26%	3.41%	6.81%	1.21%	
1997	6.63%	6.96%	3.47%	7.17%	1.85%	
1998	1.75%	5.90%	4.60%	7.31%	1.45%	4.48%
1999	2.63%	5.80%		6.15%	1.48%	4.53%

Source: Monetary Authority of Singapore

Housing Market

Singapore is an island country occupying approximately 638 square kilometers of land. The government owns approximately 76% of the land and provides 60 to 99 year leases at market prices to housing developers. The public housing segment is administered exclusively by the Housing Development Board (HDB), a statutory board of the government of Singapore. The main objective of the HDB is to formulate and implement public housing policies to support the building of communities. The proportion of households in Singapore living in public housing increased from 33% in 1970 to 86% in 1998/1999. An important component of the housing system is owner-occupied public housing, which increased from 7% in 1970 to 91% in 1998.

Housing Market A

Year	Housing Starts	Housing Completions	Permits Issued
1995	45,635	31,289	60,091
1996	40,327	32,661	51,634
1997	51,104	39,670	60,668
1998	34,171	54,308	34,837

Source: Urban Development Authority

The public sector contribution to housing has consistently been high. During the 1998/99 fiscal year, the total number of flats sold was 95,179 units, comprising 34,700 new units and 60,459 resale units. A total of 7,937 new, private residential units (80% apartments/condominiums and 20% landed properties) were sold. This reflected a 30% increase in demand for new units compared to 1998. In 1999 Q4, overall private, residential property prices went up 33% from its previous year. In 2000, private, residential sales are projected at around 8,000 units with prices expected to rise by 10-15%.

Public Housing	1996	1997	1998
Percent of Population Living in Public Flats	86%	86%	86%
Percent of Owner-Occupied Public Flats	91%	91%	91%

Source: Singapore Department of Statistics

	Owner-Occupied	Rental
Public	77.0%	9.0%
Private	10.5%	2.9%

Other	0.0%	0.3%
Total	87.5%	12.2%

Source: Singapore Census of Population

Residential Completions (Number of Units)

	1998	1999*
Public & Private Sectors		
Detached Houses	417	198
Semi-Detached Houses	388	442
Terrace Houses	1,102	704
Apartments	45,453	30,751
Condominium Units	6,948	8,033
Public Sector		
Apartments	40,270	28,196
Condominium Units	-	2,318
Private Sector		
Detached Houses	417	198
Semi-Detached Houses	388	442
Terrace Houses	1,102	704
Apartments	5,183	2,555
Condominium Units	6,948	5,715

* 1999 data is through November. Source: Urban Development Authority

Mortgage Market

The Housing and Development Board (HDB) was established in 1960 in order to maximize limited, land resources and to solve acute, housing shortages that resulted from high population growth in the 1950's. Most of the public housing erected by the HDB are high-rise "flats". Depending upon affordability and availability, Singaporeans may choose from six flat types that range from 1-room to 5-room and executive. The HDB manages most of the public, rental flats in Singapore, which are provided at a subsidized rate. In addition, the HDB purchases flats at market rates and sells them at heavily discounted prices. HDB provides loans for 20-year terms at subsidized rates for purchase of its flats. The interest rate is 0.1% above the Central Provident Fund (CPF) interest rate, and it is adjusted semi-annually. The HDB provided S$7.8 billion of loans in the 1998.

In fiscal year ended March 1999, there were 142 commercial banks, 70 merchant banks and 15 finance companies in Singapore. The total, private housing loans outstanding by commercial banks in Singapore was S$35.3 billion at the end of 1999. This represented an 11% increase from the previous year. However, the 5 local banks have a combined 96% share of the mortgage market. Development Bank of Singapore (DBS) acquired the state-owned Postal Savings Bank (POSB) in November of 1998, boosting its market share to 47% by the end of 1999.

Private Mortgage Lenders	Market Share
Development Bank of Singapore (DBS)	47%
United Overseas Bank (UOB)	20.8%
Overseas-Chinese Banking Corporation (OCBC)	12.8%
Overseas Union Bank	9.4%
Keppel TatLee Bank (KPB)	6%
Total	**96%**

Source: Novation Associates, LTD.

While the contribution to mortgage finance by the private sector has been significant, the Central Provident Fund and the Housing and Development Board have been the biggest providers of financing. As of March 1999, the mortgage loans outstanding granted by HDB was S$49.1 billion, with S$14.8 billion mortgage loans granted during the fiscal year 1998/99.

A principal source of mortgage finance is the Central Provident Fund (CPF), which was set up in 1955 to provide financial security for workers in their retirement. Since it's inception, it has evolved into a comprehensive social security program that. In addition to retirement benefits, the CPF provides housing and medical benefits.

In Singapore, it is mandatory for all employers and employees to contribute to the CPF, with both employers and employees contributing 20% of the worker's wages. The CPF credits each worker's account with contributions withheld from earnings and matching employer contributions. Contributions are tax-exempt, as is interest income. Rates change every six months based on the average 1-year deposit rates of the Big 4 Singapore banks. Workers can use savings for house purchases and mortgage payments but not rent. As such, it is a powerful tool to promote homeownership.

Central Provident Fund - Withdrawals for Housing (S$ millions)					
	1994	**1995**	**1996**	**1997**	**1998**
Public & Residential	3,500.4	4,590.7	5,058.4	5,786.7	7,834.7

Source: Monetary Authority of Singapore

The CPF plays an important role in housing finance in Singapore. Workers have been able to withdraw funds from their CPF accounts for the purchase of public housing since 1968, for the purchase of private housing since 1981, and for the upgrading of public flats and for investing in private residential properties since 1989.

The CPF obtains a first lien on the property to recover savings and the financial institution records a second lien to cover the loan proceeds.

Policy Developments

The government also plays an important role in the overall economic stability as well as the housing finance industry.

- As it relates to the overall economy, the Singapore government has increased development spending, causing the primary operating balance into a deficit of about .5% of GDP

- The government of Singapore has, along with the fiscal and monetary policies, implemented structural changes to reduce costs and increase competitiveness of industries. The employer contribution rate to the Central Provident Fun, the aforementioned saving scheme, has been decreased to half of its original rate; tax rebates and cuts were also introduced

- As one of the largest contributors to Singapore's GDP, the financial sector also needed reforms in the areas of transparency and regulation. The government has raised the disclosure standards for banks, and it is focusing on supervision of financial institutions. The government is also making proactive changes to loosen the restrictions it previously had on globalization of the Singapore Dollar, as well as other regulatory changes to expand the investment fund management industry and the bond market

Sources and Reference

1. International Monetary Fund, Statistics 2000
2. CIA World Fact Book, "Singapore" Online: Internet. August 2000. Available: http://www.odci.gov/cia/publications/factbook/geos/sn.html
3. The Monetary Authority of Singapore. www.mas.gov.sg
   International Monetary Fund, "IMF Concludes Article IV Consultation with Singapore". March 1999. www.imf.org
4. Stone, Mark R. IMF Asia and Pacific Department. "Fundamentals, timely policy measures help Singapore weather Asian crisis." 1999.
5. Housing Development Board. "Statistics and Charts". Online: Internet. Available: www.hdb.gov.sg
6. Singapore Department of Statistics. www.singstat.gov.sg
7. Singapore Urban Development Authority. www.ura.gov.sg
8. Meleis, Sherief. Novation Associates, LTD. Singapore Mortgage Report. 2000.

TAIWAN

Economic Background

				New Taiwan$	US$
Year	Exchange Rate currency/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990		80.67	4.12%		
1991		83.60	3.63%		
1992	25.37	87.33	4.46%	5,338,952	210,443
1993	26.62	89.90	2.94%	5,918,376	222,328
1994	26.16	93.58	4.09%	6,463,600	247,079
1995	27.22	97.02	3.68%	7,017,933	257,823
1996	27.44	100.00	3.07%	7,678,126	279,815
1997	32.52	100.90	.90%	8,328,780	256,112
1998	32.16	102.60	1.68%	8,938,967	277,953
1999*	31.34	102.78	.18%	9,312,246	297,136

Source: Central Bank of China, Financial Statistics Monthly, Taiwan Area, ROC

Taiwan has a dynamic , capitalistic economy with themajor concentration of resources shifting from traditional and basic manufacturing industries to high-tech and informationbased companies. The high-tech industry accounted for 39.1% of Taiwan's total output of manufactured goods in 1998. In 1952 Agriculture accounted for 35% of gross domestic product (GDP), and it now contributes less than 3%. Taiwan's conservative financial strategies enabled them to endure the 1998 Asian market crisis with comparatively minor economic suffering relative to many of its Asian counterparts. Real GDP growth averaged about 8.2% from 1992. The lowest GDP growth came in 1999 at 4.2%. This can be attributed to a massive earthquake that struck Taipei in 1999. Reconstruction efforts were rapid, thus enabling Taiwan's economy to weather the devastation with only a marginal decline in the production sector. It should be noted that for the future of the country's growth, an underlying political concern involves Taiwan's relationship with mainland China and the uncertainty of their reunification.

Taiwan has managed to keep inflation in check throughout the last decade. The beginning of the 1990's proved to hold the country's highest inflationary rates for the decade with its peak in 1992 at 4.46%. By the end of the decade rates had dropped well below 4% with 1999 rates dropping to .18%.

Unemployment figures indicate Taiwan's highest rates were experienced in the later half of the decade. Rates slowly grew from 1.1% in 1992 to 2.9% in 1999.

Housing Market

The Home Ownership rate is around 84% with high numbers of households owning more than one home. This indicates the mature nature of Taiwan's housing market. In the country's capital, Taipei, the average price of an existing housing unit in 1999 was NT$230,000 per ping (1 ping = 36 sq. ft). In other metropolitan areas, Taichung and Kaosing, the average price was NT$100,000 per ping.

In order to jumpstart Taiwan's sluggish real estate market, the Taiwanese government offered NT$150 billion in low interest loans for newly constructed units. By the end of 1999 over 77,000 new units totaling NT$430.5 billion were offered on the market in comparison to just 22,000 the prior year; however recent, real estate industry estimates have shown about 1 million dwellings are either vacant or unsold. Government policies have rested high expectations on Taiwan's real estate market to fuel traditional industries and stimulate the rest of the economy.

Mortgage Market

Taiwan's private mortgage market stood at NT$ 2,446 billion at the end of 1999. This was up 4.6% from 1998's total of $2,338 billion. This market is distributed between state-owned and privately owned banks. The public housing market primarily serves Taiwan's civil servants. A major portion of the mortgage market share has predominantly been in the hands of mid – size and smaller banks; however, more recently, larger banks and life insurers have been assertively acquiring more of the share in part due to the 50% risk-asset-weighting factor of mortgages. The long-dated asset classification for mortgage loans is attracting life insurers to the market with intentions of balancing their asset-liability maturity profile. The mortgage market has responded to this intense competition with a swift decline in interest rates.

Altogether Taiwanese banks run about 47% of the mortgage loan market. Controlling approximately 20%, state-owned Land Bank of Taiwan dominates Taiwan's mortgage market. The next largest share is held by First Commercial Bank and Chang Hwa Commercial Bank with 4.5% and 4.3%, respectively. Remaining shares are distributed among Hua Nan Commercial Bank, Chinatrust Commercial Bank, UWCCB, Bank SinoPac, and Taishin International Bank. 44% of SinoPac's loan portfolio is dedicated to mortgage loans. While Hua Nan, First Commercial, and Chang Hwa have less than 20% of their portfolio mix invested in mortgage loans.

Types of mortgages available in Taiwan are general housing, first-time homebuyer, home saver's plan, labor insurance housing, subsidized public housing, investment-linked, and revolving housing credit. At the end of 1999, basic mortgage rates from various financial institutions ranged from 8.2% to 8.5%.

Sources and References

1. U.S. Central Intelligence Agency. The World Factbook. Washington: Central Intelligence Agency, 2000. Online: Internet. 18 August 2000. Available: http://www.odci.gov/cia/publications/factbook/tw.html#econ
2. Novation Associates, LTD: Economics Unit. "Taiwan Mortgage Market." 19 April, 2000: 1-2
3. Huang, Joyce. "Government Property Plan Comes Under Fire." Taipei Times: Online Edition 5 August 2000. Online: Internet. 18 August 2000. Available: http://www.taipeitimes.com/news/2000/08/05/story/0000046520
4. Chou, Stanley. "Finance Minister Backs Away from Cheap Mortgage Pledge." Taipei Times: Online Edition 3 August 2000. Online: Internet. 18 August 2000. Available: http://www.taipeitimes.com/news/2000/08/03/story/0000046247

5. Lin, Hwan C. “One Taiwan but Two Economies.” Taipei Times: Online Edition 17 August, 2000. Online: Internet. 18 August 2000. Available: http://www.taipeitimes.com/news/2000/08/17/story/0000048158
6. Ministry of Economic Affairs for the Republic of China on Taiwan Current Status of Economic Development: Economic Forecast, Statistics. n.p., n.d. Online: Internet. 21 August 2000. Available:http://www.moea.gov.tw/~meco/Intro_e/xmoe1.htm;
7. National Statistics of Taiwan, the Republic of China. Finance, Economic Indicators, Prices. n.p., n.d. Online: Internet. 21 August 2000. Available: http://www.stat.gov.tw

THAILAND

Economic Background

				Baht	US$
Year	Exchange Rate Baht/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	25.59	100.00		2,183,500	85,326
1991	25.52	105.70	5.70%	2,506,600	98,221
1992	25.40	110.00	4.07%	2,830,900	111,453
1993	25.32	113.70	3.36%	3,170,258	125,208
1994	25.15	119.50	5.10%	3,634,497	144,513
1995	24.92	126.40	5.77%	4,185,629	167,963
1996	25.34	133.80	5.85%	4,608,491	181,866
1997	31.36	146.80	9.72%	4,675,460	149,090
1998	41.36	128.10	-12.74%	4,642,203	112,239
1999*	37.84	128.60	0.39%	4,688,400	123,901

Source: IMF Statistics, 2000; *Bank of Thailand, March 31,2000

In 1999, for the first time since 1997, the Thai gross domestic product (GDP) registered a small year-on-year positive growth. The main contributor was an improvement in the manufacturing sector, which is the largest sector of the economy (32% of GDP in 1998). On the other hand, the overall rate of contraction in “real estate, renting and business activities” is reported to have deepened (-10.2%), and its contribution to GDP is currently small (3%). The overall price level in the economy exhibited deflation, with both the CPI and wholesale prices declining further in the early part of the year. It is a common view that the Thai economy has hit bottom. The questions now are the rate of recovery and what will be the effectiveness of recent stimulus packages.

Liquidity in the domestic markets has greatly improved since the August 14, 1998 package of banking measures. The commercial banks’ Minimum Lending Rate (MLR) has declined sharply from its high level in mid-1998. It continued to decline in the first half of 1999 and ranged from 8.75% to 9.0% at the end of 1999, as compared with a 11.0% to 11.5% range at the beginning of 1999. However, new lending is minimal. Uncertainty about the timing, speed and scale of the economic recovery has sharply curtailed the demand for new credit as well as the willingness of banks to make new loans.

In 1999, banking efforts remained focused on loan collection and portfolio restructuring, as the level of non-performing loans (NPL) was still very high (45% of total bank loans as of the end of March 1999). Banks’ senior management were concentrating their efforts on re-capitalization and raising fresh capital.

Housing Market

From 1987 to 1996, the Thai economy grew at an average annual rate of more than 8%. The Stock Exchange of Thailand (SET) index of the property sector increased tremendously from approximately 91 at the end of 1988 to about 2,300 by the end of 1993. This growth, combined with the availability of housing finance, resulted in an explosive housing boom. Fed by the easy availability of finance, private developers assumed more of a leadership role in housing construction.

During the period 1992-1996, housing completion in the Bangkok Metropolitan Region expanded enormously, totaling 752,545 units (an average of 150,509 units per year), whereas the demand forecasted by the National Economic and Social Development Board was only 376,520 units for the same period. This clearly indicates over-investment in housing. The excessive speculation of homebuyers resulted in huge oversupply of housing in the Bangkok Metropolitan Region. The Government Housing Bank (GHB) estimates that a total of about 300,000 housing units in the Bangkok Metropolitan Region, or about 14% of the total housing stock, were unoccupied at the end of 1995. This rapid expansion in the housing sector as well as the real estate market was unchecked and contributed to a bubble for the entire economy.

According to that very basic and aggregated survey, the composition of the housing stock built between 1990 and April 1998 and the inventory of unsold units were as follows:

Total Housing Production since 1990 and Unsold Units as of April 1998

Housing Type	Total Number of Units			Total Value in THB million		
	Total units	Not Sold	*Percent Unsold*	Total Value	Unsold	*Percent Unsold*
Total	*1,132,333*	264,064	*23%*	1,605,556	412,027	26%
Single House	143,360	45,508	*32%*	473,756	125,491	26%
Duplex House	18,600	4,711	*25%*	29,432	7,351	25%
Town House	407,181	76,451	*19%*	439,475	83,238	19%
Shophouse	93,688	16,085	*17%*	217,845	41,671	19%
Condominium	469,304	121,328	*26%*	445,089	134,277	30%

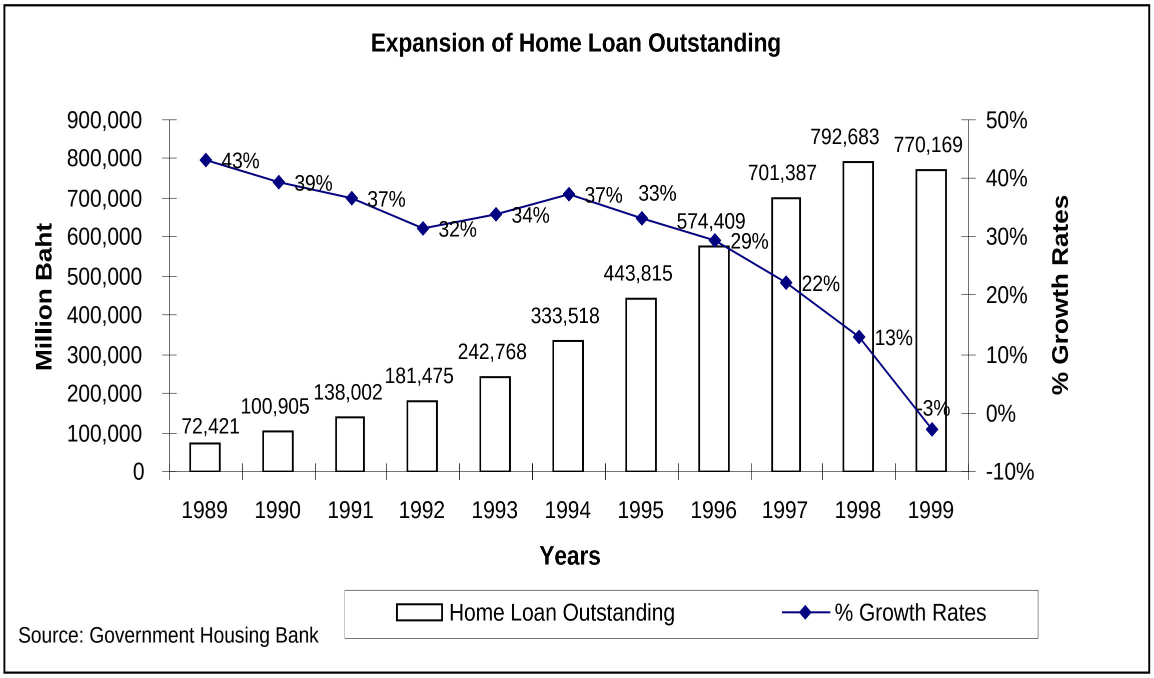
Source: MOF real estate committee report.

The continuing contraction of the real estate sector reflects a weak demand being met with significant oversupply and extremely high vacancy rates by international standards across almost all segments of the real estate industry (offices, retail and commercial, industrial, hotel and recreation). In 1999 there was a 20% vacancy rate in the residential sector and 30% of office space was vacant in the country's capital, Bangkok. (over 330,000 vacant residential dwellings). It is reported that the most severe oversupply occurred with condominium units originally built to meet investment demand. The FRA's latest results for residential asset sales suggest that residential prices are bottoming out.

Mortgage Market

The size of the mortgage market at the end of 1998 was 770.2 billion Baht, representing 16.6% of GDP. The size of banks' residential mortgage portfolios was shrinking at this time, not expanding. Potential new borrowers remained uncertain about the recovery, were concerned about job security and prospective asset appreciation in housing prices. Potential first-time homebuyers remained reluctant to enter a long-term debt commitment, in spite of significantly lower housing prices. Meanwhile, current borrowers were seeking to refinance their loans to take advantage of lower interest rates in 1999.

The growth rate in mortgage debt outstanding ranged between 23% and 37% per annum in nominal terms between 1990 and 1996 before falling to 13% in 1997 and declining an additional 3% in 1998.



The Government Housing Bank had the largest share of the market at 37% in 1998. Commercial banks had a market share of 52% and finance companies and others shared the remaining 11%. The GHB share was up substantially from the mid-1990's level of 20%, reflecting the bank failures and retrenchment precipitated by the crisis.

The standard mortgage instrument in Thailand has been a reviewable rate mortgage. Prior to 1999, the loans offered by GHB featured fixed payments and a flexible term. GHB changed its mortgage formula in 1999 to allow mortgage payments to vary with interest rates, providing payment relief to cash-strapped borrowers.

Since early 1999, home loans have been considered to be less risky than other loans because it was anticipated that real demand, rather than speculation, was what would drive the purchase of homes during this period. Thus, several banks have competed aggressively in extending home loans, including refinancing by offering very low mortgage rates, even lower than the banks' minimum lending rate (MLR). Some banks offer only at 6.5 - 7.5% whereas the MLR is about 9.25%. Projecting low interest rate levels in the short-term, banks have initiated a new form of mortgage loan with fixed interest rates and terms varying between 18 months and two years, thereafter moving back to floating rates based on interest rate levels at the time.

Policy Developments

The Thai bond market is still small. Developing a deep bond market is one of the key financial objectives of the Thai government. In January 1999, there were THB800 billion of bonds outstanding, representing fewer than 300-bond issues, whose face value amounted to less than 20% of GDP (16%). The largest share of bond issues in number and in value (80%) were either issued or guaranteed by the government. Risk-free benchmarks are now available for maturity of up to 10 years.

The development of the domestic bond market can be expected to play a major role in mortgage product innovations for consumers and better overall risk management in the mortgage markets. In keeping with this view, the Thai government created the Secondary Mortgage Corporation (SMC) in 1997 to develop a secondary mortgage market. The difficulties in the sector have precluded any progress with securitization. The prevailing view is that the development of a mortgage-backed securities (MBS) market will take considerable time.

Sources and References

1. IMF Financial Statistics, 2000
2. Government Housing Bank 1998 Annual Report
3. Richupan, Dr.Somchai, "Macroeconomic Instability and Housing Finance: Thailand's Experience." Housing Finance International, December 1999
4. Ministry of Finance – committee on NESDB Conference on Thailand's Competitiveness and Economic Recovery, Bangkok, May 1998
5. B. Renaud, M. Zhang, and S. Koeberle, *How the Real Estate Sector Undid Financial Institutions: What Can be Done Now?*, NESDB Conference on Thailand's Competitiveness and Economic Recovery, Bangkok, May 1998.

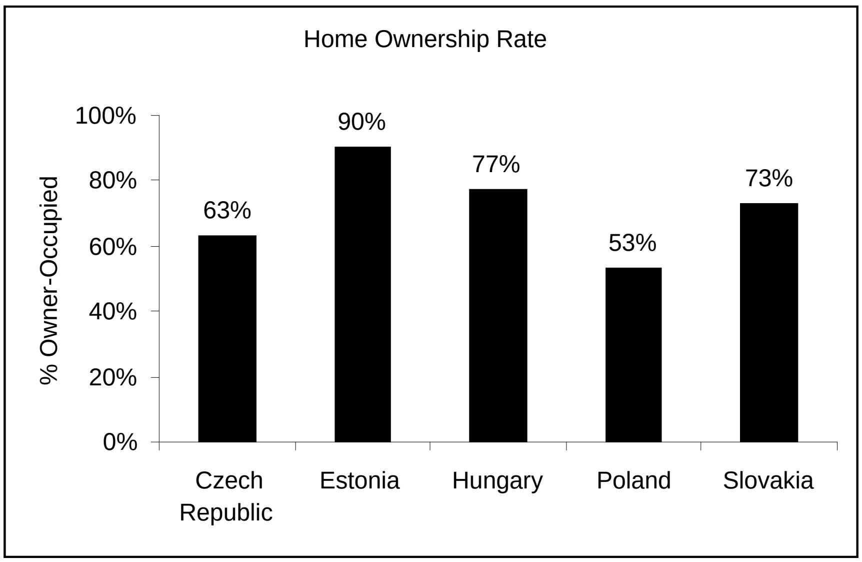
CENTRAL & EASTERN EUROPE

Regional Summary

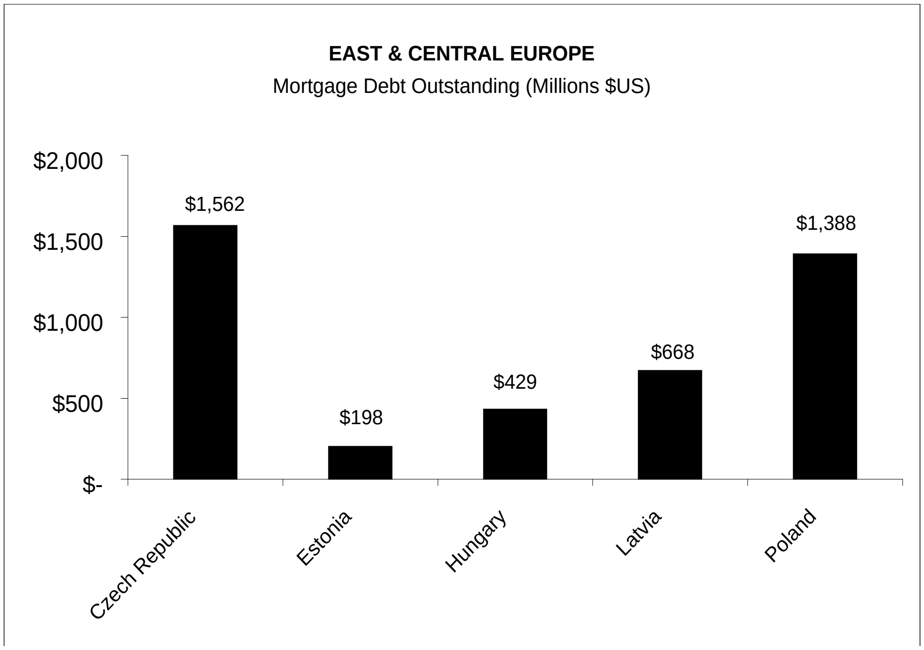
Central and Eastern Europe

Most of the economies in Central & Eastern Europe can be classified as recovering from effects felt from initial privatization and transition to market economies. Overall, most of the countries have experienced growth since the 1989 recession and have enjoyed some foreign investment during the last decade. Inflation rates have come down significantly and banking systems have been developed.

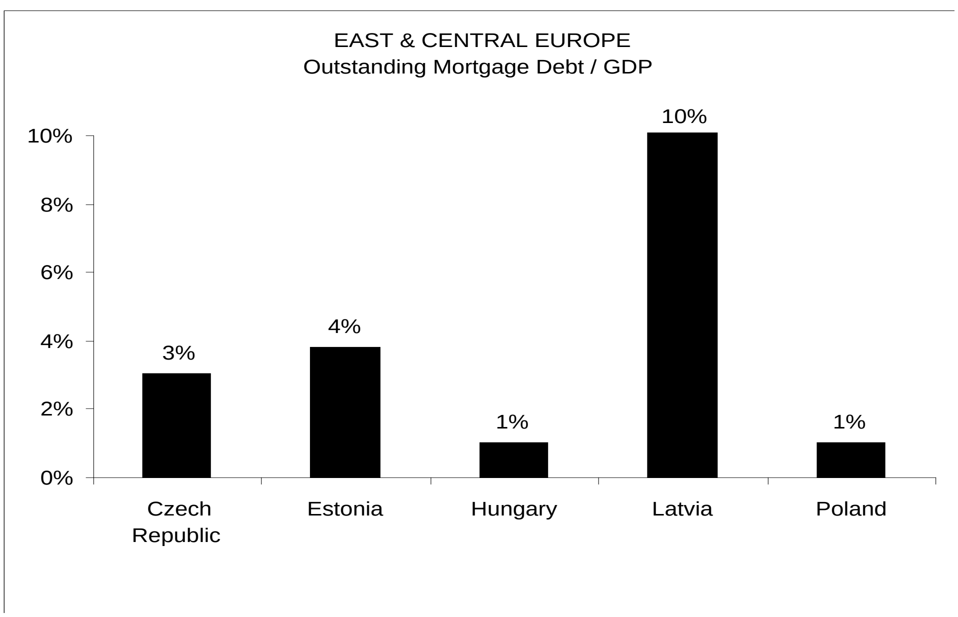
Homeownership rates are relatively high, particularly in Estonia, where owner-occupied housing is at 90%, as well as Hungary and Slovakia with ownership rates of 77% and 73% respectively.



The Czech Republic and Poland have among the highest volumes of mortgage debt outstanding.



However, outstanding Mortgage Debt to Gross Domestic Product ratios are low, reflecting the recent development and low volume of mortgage finance activities in the region.



Privatization and transition to market has substantially re-configured the housing stock in many countries. In most countries, the transition has been supported by government programs and subsidies to cushion the shock of moving to market rents and prices.

Nevertheless, in most of the countries the transition is incomplete, as sectors of the market remain protected through rent control.

Mortgage finance has been slow to develop throughout the region reflecting high and volatile interest rates, uncertain employment prospects for borrowers, weak and evolving legal structure for property ownership and mortgage lending and lack of long term funds for banks. As postulated by Diamond [1999], households have been reluctant to borrow, even when offered deeply subsidized rates, reflecting an aversion to paying market rates of interest and on-going uncertainties about the economy.

Mortgage funding comes primarily from bank retail deposits, personal cash, as well as *Bausparkassen* (Building Societies) contract savings programs. Mortgage bond legislation has been passed in a number of the countries. Securitization has been slow to emerge and there is limited mortgage bond activity as a source of funds in the region.

BULGARIA

Economic Background

				Leva	US$
Year	Exchange Rate Leva/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990		2.17	23.80%	45.39	
1991	0.02	9.52	338.45%	135.71	6,785.50
1992	0.02	18.21	91.30%	200.83	10,041.50
1993	0.03	31.47	72.88%	298.93	9,964.33
1994	0.05	61.71	96.06%	525.55	10,511.00
1995	0.07	100.00	62.05%	880.32	12,576.00
1996	0.18	223.01	123.01%	1,748.70	9,715.00
1997	1.68	2636.55	1082.26%	17,103.40	10,180.60
1998	1.76	3224.28	22.29%	21,577.00	12,259.66
1999	1.84	N/A	N/A	N/A	N/A

Source: IMF

In April 1997, the current ruling Union of Democratic Forces (UDF) government won pre-term parliamentary elections and introduced an IMF currency board system which succeeded in stabilizing the economy. The triple digit inflation of 1996 and 1997 has given way to an official consumer price increase of 6.2% in 1999. Following declines in GDP in both 1996 and 1997, the economy grew an officially estimated 3.5% in 1998 and 2.5% in 1999. In September 1998, the IMF approved a three-year Extended Fund Facility, which provides credits worth approximately $900 million, designed to support Bulgaria's reform efforts. In 1999, an unfavorable international environment - primarily caused by the Kosovo conflict - and structural reforms slowed economic growth, but forecasters are predicting accelerated growth over the next several years.

The government's structural reform program includes: (a) privatization and, where appropriate, liquidation of state-owned enterprises (SOEs); (b) liberalization of agricultural policies, including creating conditions for the development of a land market; (c) reform of the country's social insurance programs; and (d) reforms to strengthen contract enforcement and fight crime and corruption. On 5 July 1999 the leva was re-denominated; the post-5 July 1999 leva is equal to 1,000 of the pre-5 July 1999 leva.

Housing Market

Housing Investment

Year	% of GDP	% of All Investments	Number of New Units	Average Size of New Units sqm
1991	1.60	8.70%	19,423	70.9
1992	1.50	6.60%	17,996	77.0
1993	0.80	5.80%	11,021	81.6
1994	0.50	3.30%	8,669	83.9
1995	1.50	10.70%	6,815	8,601.0

1996	1.40	10.00%	8,099	82.4
1997	1.40	12.30%	7,452	86.7

Source: UN

The housing market is weak with a large portion of the stock in need of renovation. The number of new houses has dropped off significantly in recent years.

Current low-income levels lead to distortions in household budgets. The ongoing increase of housing utility and services' prices shrinks saving capabilities. Therefore, even though homeowners may have strong equity position in their homes, most of them can not express this equity as a demand for loans.

Mortgage Market

One bank in Bulgaria, the Bank SSB, has inherited the housing finance monopoly from the now extinct state-run bank. Refinancing and mortgage loans are funded with deposits. The other licensed banks are eligible to issue home loans, but have not yet begun to compete with the Bank SSB.

Housing markets and housing lending have developed separately because the credit-to-value ratio is very low. The inherited system of housing savings in the SSB is the same. New economic conditions have made saving for housing unattractive because the interest difference between fixed-term saving deposits and housing deposits has been positive. This has reduced the financing sources for home purchases and renovations, causing reductions in new construction as well.

The only mortgage instrument is an annuity credit that acts like an Adjustable Rate Mortgage (ARM) with a base rate subject to adjustment to the "basic market interest rate" in which borrowers are permitted to prepay. All attempts to introduce more flexible mortgage instruments have failed due to unfavorable macroeconomic conditions.

Demand is low for long-term mortgages because of low household ability to pay, whereas the funds are plentiful with the Bank SSB. The SSB still attracts 70% of the population's savings, however not in accounts designated as home finance savings accounts. The relative share of housing deposits in Bank SSB has fallen to 1.6% of total deposits, the remainder of deposits being in savings accounts.

Sources and References

1. International Monetary Fund (IMF), 2000
2. United Nations National Response Paper on Bulgaria, Workshop on Housing Finance, February 2000
3. CIA, The World Factbook 2000

CZECH REPUBLIC

Economic Background

				Koruny	US$
Year	Exchange Rate Koruny / US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1993	29.15	83.29		1,002,300	34,384
1994	28.79	91.66	10.06%	1,148,600	39,896
1995	26.54	100.00	9.10%	1,348,700	50,818
1996	27.14	108.82	8.82%	1,532,600	56,470
1997	31.70	118.01	8.45%	1,649,500	52,035
1998	32.29	130.62	10.68%	1,776,700	55,023
1999*	34.57	133.37	2.10%	1,833,000	53,023

Source: IMF; *Czech Statistical Office

The recession that immediately followed the ouster of the Communists in 1989 was less severe than elsewhere in the region, and real growth started by 1994-5 and hit almost 7 % in 1995. However, the economy stumbled again in 1997 under the weight of the failure of 3 banks and several scandals involving non-transparent dealings in publicly held companies. Foreign investors lost confidence because of the "shallow" privatization process, leaving previous managers entrenched with weak, corporate governance and limited access to foreign direct investment. This slowdown has continued through 1998 and into 1999. Deeper structural reforms are now awaited from the new government installed in 1998.

Housing Market

As of 1995, the overall housing stock of 3.7 million units was distributed in the following manner:

Housing Unit Status in 1995	
Owner Occupied	
Family Houses and Flats	43%
Co-operatives	20%
Public and Employer	
Rental	27%
Private Rental	10%

Source: Diamond 1999

New construction activity fell sharply after 1990, because the traditional financing techniques had disappeared, and because real interest rates were high and real economic growth was negative. Starts made a rapid decline by 88 % to a low of 7,500 in 1993. The decline in completions was far more gradual until they bottomed in 1995 at 70 % lower than in 1989.

STARTS AND COMPLETIONS OF HOUSING UNITS: 1989-1998

	# Of Units	# Of Units

YEAR	Started (000)	Completed (000)
1989	56.0	55.1
1990	61.0	44.6
1991	10.9	41.7
1992	8.4	36.4
1993	7.5	31.5
1994	11.0	18.2
1995	16.5	12.7
1996	22.7	14.5
1997	33.2	16.8
1998	35.0	22.2

Source: Diamond 1999

The recovery in the new housing market has continued through expanding subsidies and rising incomes in the top part of the population. However, the pace of new home construction has also benefited from a number of subsidy schemes. The largest is a major subsidy to local governments for the construction of additional rental units. The cost of these units is split in roughly equal shares between the central government, local government, and the would-be "tenant." The tenant's contribution is counted as a "prepayment" of rent for 20 years and in return the tenant is expected to end up with title after that period. However, full maintenance costs are expected to be charged as well, making these units more expensive than the existing municipal stock being rented at below maintenance costs. Over 35,000 of such units have been contracted since 1995 (but many have not yet been started).

In 1996, the government added a subsidy to residential loans taken from mortgage banks when used for new construction. A 4 % point buy-down from the market interest rate was granted, paid directly to the lender on a limited (but with a high limit) amount of loan. In addition, government debt became fully taxable after 1996, while mortgage bonds remained being tax-exempt. In 1998, all mortgagee interest became tax-deductible.

Mortgage Market

The first, new finance subsidy to support housing was a Bausparkasse system adopted in 1993. The resulting system has grown quite large, with about one-fourth of the population expected to be participating by the end of 1999. Four institutions were able to get into operation in the first year, and two more in 1994. The very first, the Czecho-Moravian Building Society, has remained in the lead of the other five since then. All six institutions have strong minority participation by German Bausparkassen, with majority ownership resting with a Czech universal bank.

The Bausparkassen have been very successful in attracting savings, and they are starting to make a large number of loans. The return on savings has been attractive, being independent of the value of the low-rate housing loan. Over the minimum 5 year savings period, a 25 % premium on the annual contribution, on top of a 3-4 % return on accrued savings, has yielded a tax-exempt return of about 12 %. This is higher on an after-tax basis than most alternatives. Moreover, the Bausparkassen are giving savers a 1.5 %

bonus to the basic interest rate, if the savers decline their right to a 6-% loan at the completion of their 5-year saving period.

The maximum amount of subsidy is achieved by saving at a rate of CZK 18,000 a year for 5 years. With interest and premium, this provides total savings of about CZK 120,000 after 5 years. Matched with a loan of the same size and with a second savings amount and loan for a spouse, a couple can build a total of almost CZK 500,000 towards a housing investment. This relatively large amount, currently almost USD 15,000, is about 50% of the cost of a modest existing flat, but only 25-35 % of the cost of a more substantial flat or a family house.

As of the end of 1998, Bausparkassen customers had taken out almost 200,000 loans, dwarfing the roughly 20,000 regular mortgage loans outstanding. More than 75 % of these loans were “bridge” loans at market rate, to be paid off by a low-rate loan at the completion of the contract. Two-thirds of these were for the purchase of a housing unit.

Mortgage banking legislation was passed in 1995. The design is not that formally followed in Germany. Universal banks can obtain licenses for mortgage banking activity, as long as they keep separate legal and accounting records on the activity. The "mortgages" that provide the collateral for the mortgage bonds are not physically segregated from the other assets of the bank, but they are legally segregated in case of default or bankruptcy, so that they serve exclusively as first-rank collateral for the bonds.

This mode of evolution of mortgage banking has allowed the seamless growth of mortgage lending in the Czech Republic as mortgage banking evolves. The banks have simply funded their lending from the general deposits of the bank or from mortgage bond issuances when that funding is attractive. So far, only about one third of the funding has been through bond issuance. The bonds have rates, 2-3 % points less than government bonds by virtue of being tax exempt.

Seven mortgage banking licenses that have been issued. All but one of these licenses were given to universal banks, not specialized mortgage banks, and the one specialized mortgage bank found it uneconomical to operate in that fashion. One of the mortgage banks is exclusively focused on making loans on commercial real estate. Another one is oriented towards commercial loans, loans for rental residential developments, and loans for high-cost houses. Three major commercial banks are competing for the bulk of the household market.

As of July 1999, the cumulative volume of owner-occupied residential mortgages approved by these three banks was 21,708 loans for a total of CZK 30.3 billion, or an average of about USD 40,000 (but many loans cover multiple unit family houses). The rate of lending had tapered off from 1996 (463 loans per month) through 1997 (260 per month). This was presumably due to the higher interest rates on loans starting in mid-1997 and the greater competition from Bausparkassen, where many more contracts are maturing into loans. Lending rebounded strongly in 1998 despite the high interest rates, probably due to the passage of tax deductibility of mortgage interest. Even at the higher current levels, a regular mortgage loan (in contrast to a Bauspar loan) is used in fewer than one in five housing purchases. When combined with outstanding Bauspar loans, the total outstanding loan balances are approximately CZK 54 billion or approximately 3% of GDP.

Currently, the standard design for mortgages is a 20-year term, with a rate that is fixed for 5 years and prepayment that is subject to high, but negotiable, fees. Buyers of new houses, who qualify for a 4 percentage point subsidy from the government that is payable out to 20 years, find full term loans attractive. Even if not eligible for the direct subsidy, the interest on the loan is currently tax deductible, which reduces the effective real rate of interest to about zero %, at least for high-income borrowers in the 30-40 % tax brackets.

As of June 1998, these loans were being offered at rates of about 14 % for the first 5 years.   However, rates came down sharply in March 1999, to 10 %. Underwriting on these loans is based on calculations designed to ensure that remaining discretionary income exceeds 1.6 times the minimum living income for that family size (this approach parallels the approach in Germany). The net effect, apparently, is for a payment-to-net income (PTI) ratio of about 30-35 %. In making these calculations, the 4 % subsidy is deducted from the rate (if applicable), and a share of the tax savings due from deducting the interest paid is also removed from the net mortgage payment.

Interest Rates

Year	Lending Rate	Deposit Rate	Mortgage Rates
1993	14.07%	7.03%	
1994	13.12%	7.07%	
1995	12.80%	6.96%	
1996	12.54%	6.71%	
1997	13.20%	7.71%	
1998	12.81%	8.08%	14.00%

Source: IMF, Diamond

Policy Developments

The government will create a “State Housing Development Fund” in which non-budget funds will be accumulated for implementation of certain housing development measures, particularly two basic functions. First, funds will be accumulated with the purpose of providing guarantees for bank loans that are granted by mortgage and construction savings banks to municipalities and housing cooperatives. Second, funds will be accumulated to provide loans and subsidized interest rates for loans granted by mortgage and construction savings banks to municipalities and housing cooperatives.

The government will provide support for collective investors-especially cooperatives and the forthcoming non-profit housing organizations. Government subsidy for construction savings plans and loans will be available to members of these legal entities for financing joint developments. The existing program, providing subsidies to municipalities for construction of rental housing and technical infrastructure, will continue until activities of non-profit housing organizations sufficiently develop.

Sources and References

1. Diamond, D. “The Transition In Housing Finance In Central Europe And Russia”, Urban Institute, October 1999.
2. Czech Ministry of Regional Development, various publications on housing subsidies and housing construction.
3. IMF: International Financial Statistics, 2000
4. Hegedus, J.; Tosics, I.; and Mayo, S., "Transition of the Housing Sector in the East Central European Countries," Review of Urban and Regional Development Studies, 8, 1996.
5. United Nations, National Response Paper on Czech Republic, Workshop on Housing Finance, February 2000.

ESTONIA

Economic Background

				Krooni	US$
Year	Exchange Rate Krooni/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990					
1991				1,832	n.a.
1992		27.71		13,158	n.a.
1993	13.22	52.59	89.81%	21,610	1,635
1994	12.99	77.65	47.65%	29,645	2,282
1995	11.46	100.00	28.78%	40,705	3,552
1996	12.03	123.05	23.05%	52,446	4,360
1997	13.88	136.07	10.58%	64,324	4,634
1998	14.07	147.24	8.21%	73,213	5,204
1999	14.68	152.09	3.30%	75,360	5,134

Source: IMF

Estonia regained its political independence on 20 August, 1991 and held its first elections in 1992. Structural reforms and establishment of a market economy started immediately, and the economy stabilized by 1994. The banking establishments operating in the Soviet times ceased operations, and a new banking sector was established, entirely in private hands and mostly with private Estonian capital.

A major assist to stabilizing the economy and supporting the new banks was the decision to follow a currency board approach to monetary policy. It started in June 1992, when the Estonian kroon was locked to the DEM at 8 EEK = 1 DEM. As it happened, this exchange rate made Estonian assets and wages attractive to foreign investors, particularly from Scandinavia. In addition, enterprises in the Baltic, Scandinavian states and Russia found Estonia a good place to do business. As a result, the real economy grew rapidly, a total of 20 % from 1994 to 1997, and a current account deficit, averaging almost 9 % of GDP annually, was financed largely out of foreign direct investment.

With the inflow of capital and expansion in the demand for bank deposits, the money supply grew rapidly, with total bank deposits more than tripling from 1994 to 1997. Despite inflation averaging over 20 %, real wages rose by a total of 20 %.

The economic boom ended when the market for emerging market equities was rocked by economic crises in Asia. This prompted a major sell-off in the thin Estonian Stock Market starting in October 1997. Emerging market debt was also suddenly appearing less desirable, and margins on foreign borrowing widened dramatically. The creditworthiness of banks was affected by their extensive holdings of equities. In addition, speculative pressures against the EEK increased, which also drove up short-term interest rates sharply. All of these pressures were increased further by the crisis in the Russian economy in August 1998. This put the economy into a recession in late 1998, from which it began to recover in 1999.

Housing Market

The Estonian population was 1.46 million in 1997. This signifies an annual decline of 1% since 1994. As in the case of some other transition economies, the process of privatizing the state-owned stock of housing has created a housing market that is unusually heavily owner-occupied, over 90 %. The real estate market can be divided into two: apartments and private houses. Currently apartments form 85% of the market. Although new housing completions did not rise substantially, resales of homes did, by over 100 % from 1995 to 1997.

YEAR	% Housing Expenditure in GDP	New (commissioned) residential buildings
1992	n.a.	3405
1993	8.4	2431
1994	12.0	1953
1995	13.7	1149
1996	13.8	935
1997	13.7	1003
1998	n.a.	882

Source: Estonia Housing Statistical Office, 1999

According to the Estonian Statistical Office, the total area of constructed dwellings was 121 000 m2 in 1997. Building permission was granted for the construction of more than 15 000 m2. Similar developments can be perceived for 1998. In 1997, the value of dwelling space transactions was 3 485 million EEK. The average price of dwelling spaces is currently between 8000 and 12 000 EEK per m2 and these prices will rise.

Mortgage Market

The steady improvement in economic conditions and low interest rates relative to rising nominal incomes began to make consumer borrowing of greater interest to the public. The rapid expansion in funds made banks more interested in providing loans. Meanwhile, legislation in 1995 strengthened the legal basis for loan recovery under housing loans, making mortgage lending more feasible.

The banks remained concerned, however, about the prospect of making such long-term loans based on short-term deposits from an uncertain customer base. This impasse was ended when the European Bank for Reconstruction and Development (EBRD) offered access to long-term (10 years) funding specifically for residential mortgages (but in the form of subordinated debt). Hansapank starting offering mortgages based on this facility in 1996. Uhispank (Union Bank) also tapped into similar EBRD funding and Hoiupank (Savings Bank) competed using primarily deposits. A rapid decline in margins combined with a decline in nominal interest rates to levels below inflation and a soaring stock market, ignited pent-up demand to borrow for housing. As 1997 progressed, residential mortgage lending soared to over EEK 150 million a month, and totaled over 2 % of GDP for the year.

The period 1996 to October 1997 saw a rapid evolution in the access of Estonian banks to medium-to-long term financing from foreign institutional investors. In total, the banking sector increased the total of outstanding foreign debt from almost zero at the end of 1995 to EEK 536 million at the end of 1996 and EEK 2.3 billion by September 1997 (a 400 % rise in 9 months). This inflow of foreign funding permitted total bank credit to expand by almost 90 % in 1997 although deposits rose by only 40 %.

The tax deductibility of mortgage interest (at the flat 26 % rate) pushed effective nominal interest rates below 10 % and also below the inflation rate of 11 % in 1997. However, the number of housing purchase loans made in the peak year of 1997, about 7,000 net of loans for renovation (10,000 in total), was still less than one-fourth of the number of recorded sales of homes. Thus, as striking as the boom in mortgage lending was in that period, the majority of housing transactions remained all-cash purchases (as has been the case in Central European countries). The mortgage market made a strong debut, but was still in a nascent state.

This initial boom in mortgages ended when the 1997 and 1998 economic crises. The end result was a tightening of underwriting conditions and a rise in rates to as high 13-14 %. In 1997, new originations dropped off some, but rose back to over EEK 100 million per month after short-term rates dropped again in April 1998. The market was hit even harder after Russia defaulted in August 1998 and averaged only EEK 57 million a month from then until rates dropped again in March 1999. As of mid-1999, lending is back at its previous peak pace of about 130 – 170 million kroons per month.

In spite of stricter loan conditions and limited funds, there has been a continuous growth in mortgage loan balances. This is not the result of an increase in the volume of new loans, but rather due to the fact that the repayment of the principal on the loans so far issued, has been relatively small.

Mortgage Balances

million kroons	12/97	01/98	02/98	03/98	04/98	05/98	06/98	07/98	08/98
Mortgage balances	2,125	2,185	2,218	2,267	2,347	2,434	2,722	2,769	2,784
Monthly turnover	80,5	53,2	85,6	85,6	119,0	115,2	132,0	83,3	55,2

Source: The Bank of Estonia

Mortgages constituted approximately 6% of the consolidated balances of the Estonian banks in May 1998 and approximately 10% of their total loan portfolios.

All four major banks offer housing loans and three of the four are aggressively competing in the market. The dominant lender is Hansapank, which is the result of a merger in 1998 of the two banks that were the largest housing lenders in 1997. The main competitors are Uhispank and Merita. Uhispank is also the result of merger in 1998, of the second and fourth largest banks (as of 1997). Both Hansapank and Uhispank are today controlled by Swedish institutions which are also strongly retail oriented and are presumably supportive the efforts of these Estonian institutions to expand in this area. Merita Bank, the largest Finnish bank before merging with a large Swedish bank in 1998, is the fourth competitor. Merita is pursuing a program of steady expansion of its Estonian exposure, fueled by direct funding in euros from the head office in Helsinki.

Other than Merita, banks have begun to rely on medium-term (3-5 years) notes issued in the Eurobond market, as well as local deposits in DEMs, to fund housing loans for terms up to 15 years. The rate on these loans is expressed as a fixed margin over 6-month LIBOR. Recently, most loans have carried a margin of 8 %. The margin on foreign borrowing has been about 2-3 % over LIBOR, implying a gross lending margin of 5-6 %. However, this spread must cover also the cost of obligatory reserves with the Central Bank (13 % of funds paying only 2.0 % interest) and the cost of offshore bond issuance. These two together are about 1 %, leaving a gross margin of about 4-5 %, relatively low for housing lending in an emerging market and with relatively small loans (averaging EEK 200,000 or USD 14,000).

Interest Rates

Year	Interbank Money Market	Deposit Rate	Lending Rate
1992	n.a.	n.a.	30.50%
1993	n.a.	n.a.	27.30%
1994	5.67%	11.51%	23.08%
1995	4.94%	8.74%	15.95%
1996	3.53%	6.05%	13.67%
1997	6.45%	6.19%	19.82%
1998	11.66%	8.07%	16.67%
1999	4.92%	4.19%	

Source: IMF

There is a portion of the market (about 20-25 %) which has different characteristics. Loans which are smaller than EEK 100,000 (about USD 7,000) are generally financed in EEK at a higher interest rate (floating based on bank's ”base” rate; currently 13 %) over a shorter term. This allows the use of funding from local EEK deposits and the avoidance by more moderate income households of significant currency exposure. These EEK loans apply generally to renovation loans and loans for the purchase of lower price houses, especially in the rural areas.

Credit risk does not seem to be a major concern of banks. The legal basis for loan recovery through foreclosure appears to be relatively certain but can be slowed down for up to 2 years through litigation. However, there are two good reasons why defaulters do not generally resort to litigation. First, loan-to-value ratios (on first mortgages) are limited by law to 66 %, thus making it very likely that additional interest and fees will be costing the borrower and not the lender. Second, Estonia does not have a personal bankruptcy provision allowing the extinguishing of the unpaid debt on a foreclosed mortgage. Thus, the lender has the option of continuing to seek recompense beyond the value of the house.

Policy Developments

The Estonian Housing Foundation was founded in 1994 and restructured in 1998. It is the non-profit organization with a mission of creating loans for building, purchasing and/or reconstructing homes. The Foundation targets three key groups:

1. Young Families
2. Young school-teachers and teachers employed in rural schools
3. Flat – owners associations and housing co-operatives when targeted for energy efficiency improvements in their area.

The state has budgeted the following funds for this Foundation:

	1995	1996	1997	1998
Funds assigned from the State budget – mil.kroon	15.0	30.0	20.0	10.0

Source: Estonian National Response Paper

Sources and References

1. Pricewaterhouse Coopers, “Banking and Finance” and “Quarterly Economic Report”, Tallinn, 1998, 1999.
2. Diamond, D., “The Potential For A Secondary Market Mechanism In Estonia”, July 1999.
3. Housing Statistical Office of Estonia, 1999. ISBN 9985-74-110-2
4. Statistical Yearbook 1999. Statistical Office of Estonia.
5. Development Plan for Housing in Estonia until the year 2000. Ministry of Economic Affairs.
6. United Nations, National Response Paper on Estonia, Workshop on Housing Finance, February 2000.

HUNGARY

Economic Background

				Forints	US$
Year	Exchange Rate Forints/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	63.21	32.45	28.97%	2,089,300	33,053.31
1991	74.74	43.55	34.23%	2,498,300	33,426.55
1992	78.99	53.55	22.95%	2,942,600	37,252.82
1993	91.93	65.57	22.45%	3,548,300	38,597.85
1994	105.16	77.94	18.87%	4,364,800	41,506.28
1995	125.68	100.00	28.30%	5,561,900	44,254.46
1996	152.65	123.49	23.49%	6,823,300	44,698.98
1997	186.79	146.06	18.28%	8,461,550	45,299.80
1998	214.40	167.06	14.37%	10,162,600	47,400.19
1999	237.15	184.27	10.30%	11,420,000	48,155.18

Source: IMF

Hungary was one of the last of the Central European countries to begin an economic recovery. This partly reflected the negative growth in population over the period, but more importantly a different approach to restructuring the economy. To move the bulk of the economy to private ownership and at the same time attract foreign direct investment, direct sales of controlling or strategic interests were made of most state holdings, including major utilities and other infrastructure. The result was a sharp rise in unemployment but also a record amount of foreign direct investment (per capita). The unemployment rate peaked at 11.9% in 1993 and fell further throughout the 1990's but remained at 7.8% at the end of 1998. Although a financial retrenchment in 1995 slowed the economy again, there is today a general expectation that the basis has been laid for an extended period of strong economic growth. GDP growth has been strong in recent years, with 4.9% in 1998 and 4.1% in 1999. Progress has been made on inflation, which fell from 18.3% in 1997 to less than 10% at the beginning of 2000.

Housing Market

Hungary is well known for having started the transition with an economy that was more private-sector oriented than other formerly Communist countries. This applied as well to the production and ownership of housing. Since the early 1980s, most new construction had been in the form of owner-occupied family houses and flats, and truly private condominium tenure was the norm, rather than the quasi-private co-operative structure common elsewhere.

In 1990, 77 % of the stock was already owner-occupied. As rents were raised, and low prices set on the public rental stock, most of it also was privatized, producing one of the highest ownership rates in the world at an estimated 91 % in 1998. Moreover, reforms of rental and foreclosure laws have established a strong legal basis for private rental and mortgage lending. Persons remaining in public rentals benefit from a housing allowance scheme, especially for buffering the effects of market level utility rates (owners can also benefit).

Housing Unit Status in 1994	
Owner-occupied (incl. condos):	86%
Public Rental (inc. employer)	13%
Private Rental	1%

Source: Diamond

The adjustments in housing policy necessitated by the political changes in 1989 were changes more of magnitude rather than nature. The basic structure of supports for the sector, i.e., a system of grants and subsidized loans to private owners, was left in place and modified to accommodate the steep increase in inflation. The subsidy scheme put in place at the end of 1988, relying primarily on deep loan repayment subsidies, was replaced in 1994 by a scheme of large lump-sum payments to families with two or more children buying a new house. High nominal rates on housing loans could be moderated by use of a Deferred Payment Mortgage. Payments were set to amortize the loan at a 15 % rate and the gap from the payment at a market rate of about 30 % was capitalized, with payments recast annually to fully amortize.

In the first years of transition, the housing market was active and prices strong, especially in Budapest. Housing was quickly reallocated to more appropriate owners and frequently into commercial use in central Budapest. It was also seen initially as a protection against inflation running over 30 %. In 1995, the economy went through an austerity and retrenchment program, from which it and the housing market have emerged stronger since 1996. Inflation trended down sharply from a second peak of 28 % in 1995 to about 10 % in 1999.

New construction of housing was promoted by deep lump-sum subsidies starting in 1994, and had recovered to about half of the pre-transition level. However, there were no shortages in housing as of 1990, and a declining trend in population and the absence of large migrations to Budapest has muted the demand for new units. The level of housing completions by the late 1990s was less than half of that in 1989.

COMPLETION OF HOUSING UNITS IN HUNGARY: 1989-1998

YEAR	# Of Units Completed (000)
1989	51.5
1990	43.8
1991	33.2
1992	25.8
1993	20.9
1994	20.9
1995	24.7
1996	28.3
1997	28.1
1998	20.3

Source: Diamond 1999

House prices started out high relative to incomes, but a steady decline in the price-income ratio since 1992 has brought prices in line with EU levels of 4-6 times the income of the purchaser. The absolute level of prices remains low by EU standards, with existing flats selling for USD 20-30,000.

Mortgage Market

Mortgage lending was a major business in Hungary before the transition, because most new housing was subsidized via such loans to individual buyers (not cooperatives). However, the underwriting of such loans was perfunctory and recovery in case of default based entirely on garnishment of wages from the state employer.

From 1989-93, the flow of mortgage lending for private housing remained relatively high, supported by the deep loan repayment subsidies as well as low-rate loans from employers and local governments. Almost all of this lending continued to be through the former state savings bank, despite the appearance of several competing commercial banks. Only in 1994 was the approach to underwriting changed fundamentally to coincide with the ending of deep loan subsidies and the start of privatization in the banking sector. Since then, the volume of lending has shrunk by more than 80 % in real terms, as households shifted to using their own (and relatives') funds instead of bank funds bearing a real rate of over 10 % and nominal rates of 25-30 %.

As in other CE transition countries, Hungary started with a dominant savings bank, the Orszagos Takarekpenztar (OTP), serving the household saving and loan market and funding the commercial banks. In addition, there were a number of large state-owned commercial banks set up just prior to 1989. Most have been privatized and sold to strategic investors. Despite these steps, OTP's grip on the retail deposit market has remained strong and has deterred entry into the housing finance market.

OTP remains the dominant private housing finance provider in Hungary. In 1998, OTP made about 18,000 loans of all kinds for housing (not including loans it administered for employers and local governments). The majority of these were conventional loans, without any form of deep subsidy. OTP has also made a successful move into being a major player in the Bausparkasse business.

As of 1998, there were two other commercial banks competing with OTP in making housing loans. Initially, neither competitor moved aggressively to take market share. However, the market competition is heating up. In 1998, K&H Bank made about 550 loans for HUF 1.0 million each on average. In addition, Postabank started to offer housing loans, completing about 270 transactions. All loans by these banks are for 10-15 years in term, at a rate that floats and is set unilaterally by the lender.

Most borrowers choose the traditional variable rate mortgage (VRM) design, despite the mid-1999 interest rate of 22 %. These are underwritten to a maximum payment-to-net income ratio of 33 %. At such high interest rates, the maximum loan-to-value ratio of 80

% is rarely a limitation. The typical borrower can carry a loan for at most about USD 5-7,000, about 25-35 % of the cost of even a modest existing flat. Notably, the actual average loan size for these standard VRMs is only about half this maximum, suggesting most people's aversion to borrowing.

The major alternative to the traditional design is the Deferred Payment Mortgage (DPM). This is a loan design whereby a payment interest rate is set (in the general case at 15 %) and the difference between that payment and the payment due at the full market rate (22 %, but formerly 28-32 %) is deferred. Periodically, a new payment is set that will amortize the loan over the remaining term. In effect, it allows the bank to choose how much capitalization of the inflation premium to permit and it avoids the need for the customer to understand how price and wage indices are being applied. Current rates are about 22-23 %, despite inflation of about 10 % and Treasury rates of about 14 %.

Interest Rates

Year	Treasury Bill Rate	Lending Rate	Deposit Rate	Mortgage rates	Gov't Bond Yields
1990	30.13%	28.78%	24.68%		
1991	34.48%	35.09%	30.41%		
1992	22.65%	33.05%	24.41%		
1993	17.22%	25.43%	15.65%		
1994	26.93%	27.40%	20.31%		
1995	32.04%	32.61%	26.10%		
1996	23.96%	27.31%	22.21%		
1997	20.13%	21.77%	18.54%		
1998	N/A	N/A	N/A		
1999	N/A	N/A	N/A	22-23%	14%

Source: IMF, Diamond

Only recently has Hungary come to inaugurate new housing finance structures. Bausparkasse legislation was passed in 1996 and first operations began in June 1997. Three institutions were able to get into operations in the first year, and one more started in 1998. Notably, the largest single institution, the one sponsored by OTP, has no minority participation by a German or Austrian Bausparkasse. Growth in contracts has been strong. By the end of the third year, the number of contracts is expected to be about 500,000.

Mortgage banking legislation was enacted in 1997 and a government-sponsored mortgage bank began operations in 1999. Notably, the mortgage banking legislation has closely followed the German model, requiring that the banks be set up as separate institutions, with a large minimum capital and a separate supervisory structure. The legislation does not provide for any advantages or subsidies to mortgage banking over deposit-based finance. Mortgage bonds will be tax-exempt, but so are all bonds and savings accounts at this point.

The level of outstanding mortgage debt has been falling, as earlier loans go into periods of lower subsidy (repayment subsidies attached in 1989-93 step down every 5 years). It is now below HUF 120 million, or only about 1 % of GDP.

Sources and References

1. Diamond, D., The Transition in Housing Finance In Central Europe And Russia: 1989-1999, Report prepared for USAID, November 1999
2. IMF: International Financial Statistics, 2000, www.imf.org
3. World Bank, www.worldbank.org

Contacts

1. Dr. Hozsef Hegedus
   Metropolitan Research Institute
   Varoskutatas kft, Lonyay tuca 34
   H-1093 Budapest

Tel: 36.1.137.9041
Fax: 36.1.216.3001
Email: Hegedus@mri.hu

Latvia

Economic Background

Year	Exchange Rate Lats/US$	Consumer Price Index	Change In Consumer Prices	Lats Nominal GDP (Millions)	US$ Nominal GDP (Millions)
1992	0.74	28.20	243.27%	1,004.55	1,357.50
1993	0.68	58.87	108.77%	1,467.01	2,157.37
1994	0.56	80.01	35.93%	2,042.55	3,647.41
1995	0.53	100.00	24.98%	2,349.22	4,432.49
1996	0.55	117.61	17.61%	2,829.13	5,143.87
1997	0.58	127.54	8.44%	3,275.46	5,647.34
1998	0.59	133.44	4.63%	3,773.52	6,395.80
1999	0.59	136.63	2.39%	3,662.00	6,206.78

Source: IMF

Since regaining independence in 1991, Latvia has achieved macroeconomic stability and made substantial progress through economic reforms, which have introduced a functioning market economy. Latvia has made important progress in structural reforms in recent years, resulting in an increased role in the economy for the private sector. These achievements have clearly placed Latvia in the most advanced group of transition economies in Central and Eastern Europe. They have also been reflected in increased confidence in the economy, both domestically and internationally. The latter is substantiated by the large inflows of foreign direct investments. The exchange rate has been stable and inflation fell to 2.4% in 1999, well within EU targets.

Housing Markets

Land reform and privatization were among the most important reforms implemented by the Government of Latvia after regainning independence in 1991. A recovery of property and privatization have been necessary bases for the development of the real estate market in Latvia. The legal basis of the real estate market transactions in Latvia is implied in the provisions of the Civil Code and the Law on Land Books. The Civil Code serves as the legal basis for the solution of all major mortgage-related problems. The provisions of the Law on Land Books are aimed at their practical resolution. This law provides for the registration of real estates and ownership rights related to them.

Housing Characteristics[2]

	1993	1994	1995	1996	1997	1998
Real estate Units Registered in Land Books (thousand)	0,3	10,1	36,4	79,4	133,5	205,8
Dwelling Stock (million m^2; end of period; total floor space)	53,1	52,8	52,7	52,8	52,9	53,0
of which:						
public	28,8	26,6	26,2	25,9	***	***
co-operative societies of dwelling owners	2,1	2,1	2,3	2,4	***	***
private	22,2	24,1	24,2	24,5	***	***

[2] – State Land Service, Central Statistical Bureau of Latvia

The legal basis of mortgage lending system in Latvia is implied in the provisions of the above mentioned laws –the Civil Code and the Law on Land Books, as well as the Law on Lending Institutions, the Law on Mortgage Bonds and the Law on Civil Process. All the necessary legal preconditions, a large amount of legally registered real estate, as well as the well-formed real estate market and the insignificant volume of real estate liens in the form of mortgages have been the basis for a rapid development of mortgage lending in Latvia. However, development of the mortgage lending in Latvia is comparatively slow, hindered by such important obstacles as a limited long-term funding and relatively low solvency of the potential mortgage lenders. Activity in mortgage lending has sharply increased during last two years, especially in lending for individuals' dwellings.

There are three basic avenues for mortgage loans in Latvia – commercial banks, insuarance companies and several investment funds. There are eight to ten commercial banks which provide clients with such type of products. These are loans with a maturity of 5 to 10 years and the maximum amount of loan can be withdrawn (60-80% of real estate value). There are three types of mortgage loans offered by commercial banks – fixed interest rate mortgage loan, floating interest rate mortgage loan and "baloon-type" mortgage loan (mortgage loan where the borrower previously agreed to reenter an agreement on specific dates during the life-time of loan).

Housing Finance[3]

	1997	**1998**	**June, 1999**
Outstanding of mortgage loans in banking sector (million Lats; end of period)	8,9	29,8	39,4

[3] – Latvian Association of Commercial Banks; Bank of Latvia

In 1998, the parliament, Saeima, accepted the Law on Mortgage Bonds that is aimed at the protecting investors and allows commercial banks to issue mortgage bonds, which is a classical tool for refinancing mortgage loans. Up to now only the State Joint Stock Company "Mortgage and Land Bank of Latvia" (MLB) has fulfilled all provissions of the Law on Mortgage Bonds and has obtained permission from the Securities Markets Commission to issue mortgage bonds. Outstanding mortgage bonds issued by the MLB was 530 thousand Lats at the end of August 1999.

Sources and References

1. IMF: International Financial Statistics, 2000

Contacts

1. Ministry of Finance
   Valentīna Andrējeva ,State Secretary
   Smilšu iela 1
   Riga, LV-1050
   LATVIA
   Tel.: + 371 7212726

Fax: + 371 7095503

2. Ministry of Environment Protection and Regional Development
   Vija Gēme, Head of the Building Department
   eldu iela 25
   Riga, LV-1494
   LATVIA
   Tel.: + 371 7026461
   Fax: + 371 7820442
   E-mail: house@novel.varam.gov.lv

3. Mortgage and Land Bank of Latvia
   Inesis Feiferis, Chairman of the Board
   Doma laukums 4
   Riga, LV-1977
   LATVIA
   Tel.: + 371 7222945
   Fax: + 371 7820143
   E-mail: inesis@hipo.lv

4. Latvian Asociation of Real Estate Appraisers
   Kr.Valdemāra iela 20
   5th floor, apartment No. 9
   Riga, LV-1010
   LATVIA
   Tel.: + 371 7240681
   Fax: + 371 7240683
   E-mail: eiroeksperts@parks.lv

POLAND

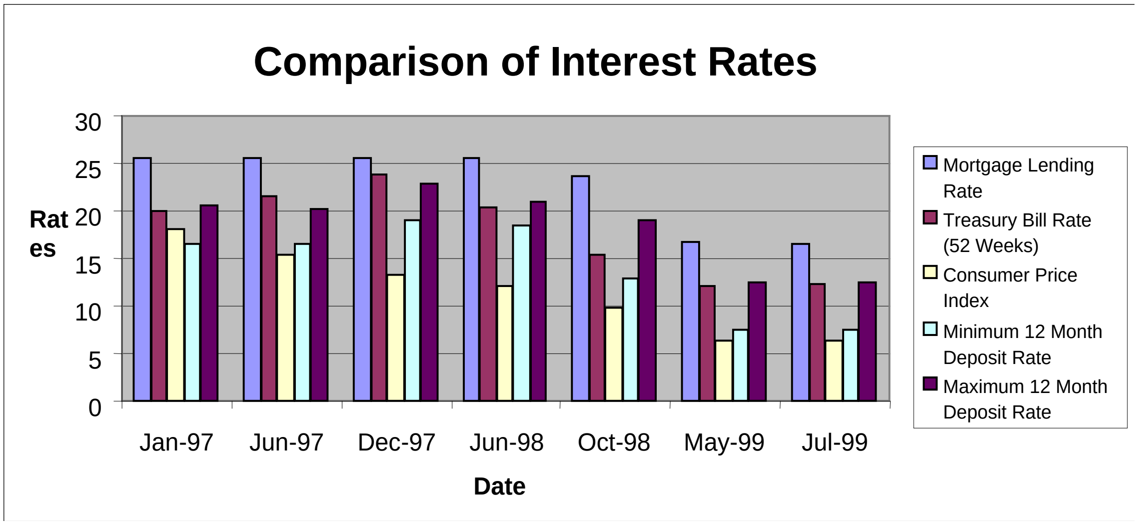
Economic Background

Year	Exchange Rate Zlotys/US$	Consumer Price Index	Change In Consumer Prices	Zlotys Nominal GDP (Millions)	US$ Nominal GDP (Millions)
1990	0.95	16.84	555.38%	56,027	58,976
1991	1.06	29.76	76.71%	80,883	76,305
1992	1.36	43.24	45.33%	114,944	84,518
1993	1.81	59.19	36.87%	155,780	86,066
1994	2.27	78.87	33.25%	223,897	98,633
1995	2.42	100.00	26.80%	306,318	126,578
1996	2.70	120.15	20.15%	385,448	142,759
1997	3.28	139.27	15.91%	469,372	143,101
1998	3.48	155.60	11.73%	551,000	158,333
1999	3.97	N/A	N/A	612,000	154,156

Source: IMF

Poland is famous for having been the most aggressive of the CE countries in pursuing a transformation to the private market. From 1989-1992, it underwent what was called "shock therapy", when subsidies were stripped away from enterprises and consumer goods, including utility fees, and extensive privatization of small enterprises was carried out.

As a result, the transition recession and recovery were telescoped in Poland, with real (measured) GDP collapsing by about 25 % in 1989-1992, and then starting to recover as early as 1992. From 1994 to today, Poland has enjoyed rapid recovery and rising real incomes, with the largest net increase in real incomes since 1989 of the CE countries. Inflation fell to 10% in 1999 as Poland progressed with a restructuring program preparing it for eventual entry into the EU. Interest rates continue to fall although lending spreads remain wide.



Source: Merrill et. al. 2000

Housing Market

Poland is by far the largest of the four Central European countries, with a population of over 38 million people and a housing stock of about 11 million units.

During the Socialist period, there was first an emphasis on the production of state- and enterprise-owned rental flats and then later on co-operative owned and managed flats, some of which are considered to be rented from the co-operative and some viewed as being owned by the resident. However, throughout the Socialist period, there remained the possibility of obtaining a owner-occupied family house, if one could procure the land and building materials needed to complete it. As of 1990, the overall housing stock of 11.4 million units was distributed in the following manner:

Housing Tenure 1990

Owner-occupied:		
	Family Houses:	40 %
	Co-operatives:	13 %
Rental:		
	Public:	*18 %*
	Employer:	12 %
	Co-operative:	14%
	Private:	3 %

Source: (Diamond 1999)

The shock therapy in Poland led to very high inflation rates in 1989-91. One result was that most housing loans were indexed for inflation. The government undertook huge outlays to buffer the housing sector from both the inflation and the drastic decline in economy. Because of the availability of continued subsidies on the new "old" loans, construction of new housing did not fall off as rapidly in Poland. In fact, the completion of units stayed steady right through the period of shock therapy and into 1993, when it finally started falling from the range of 130-135,000 units to 90,000 units and eventually to the range of 60-80,000 units since 1995. On average, the decline in housing construction was much less than in the other Central European countries.

COMPLETIONS OF HOUSING UNITS: 1989-1997

YEAR	# Of Units Completed (000)
1989	150.2
1990	134.2
1991	136.8
1992	133.5
1993	94.4
1994	76.1
1995	67.1
1996	62.1
1997	73.7

Source: Diamond 1999

The government has not moved to force the privatization of the existing rental stock or to push rents toward market levels. The ownership of the existing stock of state-owned flats (which are generally more than 20 years old and often pre-war) was transferred to the municipal governments and these governments were formally given responsibility for housing issues. Rents have been very slow to rise (partly impeded by the removal of subsidies from energy consumption) to even covering the cost of basic maintenance. This situation has left the existing rental population without incentives to move or to buy their unit or invest in new housing or for potential investors to invest in existing private rental housing (except for new rental housing, which is exempt from rent controls).

The continuation of deep subsidies to new construction in 1990-1995 limited the decline in housing starts but has also limited the bounce back from the lows that has been seen in other countries. Reported completions in 1997-1998 have stayed near the depressed levels of 1994-1996. However, the number of units under construction has risen sharply (by 100,000 from 1994 to 1998, to over 500,000). This supports the common view that the completion figures are being held down partly by the presence of tax incentives that delay declaration of "completion".

Mortgage Market

The mortgage market in Poland is quite small, reflecting the legacy of the socialist system through the end of the 1980s and the combination of high inflation and interest rates and uncertain incomes. Until recently banks eschewed mortgage lending due to the liquidity risk of long term instruments and the credit risk inherent in a market with weak legal protection of the mortgage (below) and a lack of credit histories of borrowers. This is beginning to change, however, as the economy stabilizes and interest rates decline. The stock of mortgage loans outstanding has more than doubled each of the past 3 years but mortgage debt outstanding is only 1 % of GDP. Loans to individuals accounts for over 81 % of housing lending; credits to developers stand at 15.2 % and commercial credits at 3.5 % of the total.

Table 1: Total Mortgage Finance Credits Outstanding

Month & Year	Total: PLN Mil.	Number Of Loans (000s)	Average Loan (000s)

12/96	663.0	21.5	30.9
12/97	1,502.2	42.5	35.3
12/98	2,903.6	73.5	39.5
6/99	3,952.6	96	41.2
12/99	7,520.4	n.a.	n.a.

Source: Merrill et. al.

Table 2: Increases in Total Consumer Credit and Mortgage Lending

Period	*Increase in total due to consumers*	Increase in mortgage portfolio
12/97 – 12/98	30%	82%
12/97 – 06/99	54%	147%

Source: Merrill et. al.

The mortgage market has become more competitive in the last few years. As recently as 1996, only 3 banks other than PKO-BP (Powszechna Kasa Oszczednosci Bank Panstwowy) were offering mortgage finance. By 1998 there were more than 20 mortgage lenders with several banks including PKO-SA, PBG (Powszechny Bank Gospodarczy S.A.), Bank Slaski, PBK (Powszechny Bank Gospodarczy S.A.) and BISE (Bank Inicjatyw Spoleczno-Ekonomicznych) beginning to accumulate significant portfolios. The dominant mortgage lender in Poland is the state-owned savings bank (PKO- BP), reflecting its unparalleled access to consumers and a relatively cheap retail deposit base. In the late 1990s, PKO's lending share has fluctuated between 72 and 77 %. Notably, loans from other banks are significantly larger ($20,000) than those from PKO-BP (approximately $10,000) perhaps reflecting a higher share of loans for new construction.

As of 1999, the main mortgage options are a Dual Index Mortgage (DIM), the classic Variable Rate Mortgage (VRM) and the foreign-currency denominated loans. A DIM, or Dual Indexed Mortgage, is a flexible term, negatively amortizing instrument in which the payment rate is set independent of the loan accrual rate. Payments vary with a wage index and the loan rate varies with a market rate index. If the change in payments due to the movement in the wage index is greater than the change in required payments due to interest rate change, the loan amortizes more rapidly. If interest rate change exceeds wage change, the term lengthens. A variant on the DIM with a higher rate of deferral is also offered by PKO-BP. Banks vary in the term of the loan, with some not exceeding 5-7 years, most sticking to 15 years, but PKO-BP going to 20 years. All require a floating rate, usually unilaterally set by the bank according to its judgement as to the cost of funds and market rates. Most banks also make hard currency loans with a variable rate design for relatively short terms.

Poland has a homegrown contract savings system. The *kasa mieszkaniowe* (KM) was established in legislation passed in October 1995. The KM system is motivated by tax advantages that are linked to the deposit of savings entitling the borrower to receive a below-market rate loan after completion of the savings period. The system is administered on a fixed margin basis by banks. It appears to have had relatively little success so far. The system was revamped in 1999 with a grant replacing the tax incentive. A *Bausparkassen* or *kasa budowlane* (KB) system has been proposed but not implemented.

As in the other central European countries, Poland is moving towards attempting to fund a share of its long-term housing loans through bonds issued by specialized mortgage banks. As in the case of the Bauspar system, the basic legislation has been enacted, but the final shape of the system is being determined via an extended process of formulating regulations.

The legislation refers primarily to the classic design of the system in Germany, with separately capitalized entities engaging exclusively in a few lines of business and funding themselves nearly exclusively thorough bond issuance. To date only two mortgage bank licenses has been approved. There are several pending applications, most of which are from joint ventures between German mortgage banks and Polish commercial banks.

Mortgage interest rates have fallen significantly over the past 2 years, from 26% in 1997 to 16% in mid-1999. These are relatively high real rates, since inflation is at 10 % and generally declining. They reflect both high real rates in general funding markets and a high spread.

As with all former socialist countries, the legal system has not been fully supportive of private property rights. This situation is improving, however. The government's housing strategy clearly identifies the inefficiencies and weaknesses of the current registration and lien system, noting that only 30 % of all land is titled. They recommend full computerization of their system and increased efficiency in the title registration process. The mortgage lien has a low priority in Poland and can be superceded at any time by a government (statutory) lien (typically filed in order to recover tax deficiencies – individual, corporate or local government). The statutory lien priority has been eliminated for loans originated by mortgage banks and its removal for all types of residential mortgage loans is being pursued.

Sources and References

1. Loic Chiquier, "Dual Index Mortgages: Lessons from International Practice and Conditions of Development in Poland", Housing Finance International, September 1998
2. Diamond, D., The Transition In Housing Finance In Central Europe And Russia: 1989-1999, Report prepared for USAID, November 1999
3. IMF: International Financial Statistics, 2000
4. Merrill, S., Kozlowski,E., Karas, P. and Laszek, J., "Poland: Housing Finance At The Millennium: An Assessment Of Achievements And Outstanding Issues" *Housing Finance International,* 14, 4, June 2000
5. Urban Institute Consortium, Polish Housing Finance Program, http://www.polandhousingfinance.org/reports.html

Contacts

1. Cracow Real Estate Institute
   Attn: Edward Kozlowski
   Tel: (+48) (22) 622 62 97
   Fax: (+48) (22) 621 60 22
   E-mail: kin_waw@kki.krakow.pl

2. Polish Banks Association
   ul. Smolna 10a
   00-375 Warszawa
   Tel.(0-22) 828 14 09; 826 34 17; 826 34 19
   Fax. (0-22) 828 14 06
   E-mail: kontakt@zbp.pl

ROMANIA

Economic Background

Year	Exchange Rate Lei/US$	Consumer Price Index	Change In Consumer Prices	Lei Nominal GDP (Billions)	US$ Nominal GDP (Billions)
1990	22.43			858	38.25
1991	76.39	2.89	230.62%	2,204	28.85
1992	307.95	8.99	211.21%	6,029	19.58
1993	760.05	31.94	255.17%	20,036	26.36
1994	1,655.09	75.62	136.76%	49,773	30.07
1995	2,033.28	100.00	32.24%	72,136	35.48
1996	3,084.22	138.83	38.83%	108,391	35.14
1997	7,167.94	353.69	154.76%	250,480	34.94
1998	8,875.58	562.70	59.10%	338,670	38.16
1999	15,332.80	820.44	45.80%	N/A	N/A

Source: IMF

Gross Domestic Product (GDP) has steadily decreased during the last decade in the wake of the decentralization of the Romanian economy. Additionally, the Consumer Price Index (CPI) has risen substantially and purchasing power of the nation has decreased.

Subsequent to price deregulation in 1990, inflation increased dramatically. This was due primarily to the imbalance between supply and demand of goods & services combined with inefficient government policies for controlling inflation. This has limited access to credit as well as been a disincentive to invest for companies and individuals. Along with inflation has come a reduction in real incomes with net wages accounting for only ¼ of the GDP.

Key to transitioning to a market economy has been privatization of industry, particularly the state-owned housing stock. The share of the private sector economy has increased during the last 10 years in response to these efforts. Agriculture is now at 89%, retail trade over 70% and construction is over 75% privately owned. Employment also declined by 14% between 1990 and 1996.

Housing Market

Romania has a large housing stock, with a large share of single family dwellings (55.4%). Multi-family structures account for 39% of all units. However, existing housing stock is in poor condition and deteriorating.

Share of units in different types of buildings	1977	1992
Single Family Housing	69.0%	55.4%
Terrace Housing	9.8%	5.1%
Multifamily Structures	20.6%	39.0%

Source: UN National Research Institute URBANPROJECT

Housing production after 1989 decreased dramatically, however there has been a large volume of improvements, alterations and extensions.

Year	New Housing	Urban Areas	Rural Areas
1990	48,599	41,511	7,088
1991	27,957	22,049	5,909
1994	36,700	17,800	18,900
1995	35,822	15,059	20,763
1997	29,921	10,530	19,391
1998	29,692	10,403	19,289
1999	13,232*	N/A	N/A

*1.01-30.09
Source: UN National Research Institute URBANPROJECT

Building Permits 1992-1998

• Building Permits Granted	227,115
• Authorized housing	327,930
• New housing (registered by local councils)	240,967
• New housing (registered statistically 1992-1998)	195,887

Source: UN National Research Institute URBANPROJECT

The housing market experienced a great boom in the first years of the transition. It was triggered by price deregulation, privatization of housing and abolition of former restrictions on private ownership. While housing prices in Bucharest on peripheral locations have fallen as compared to past years, they continue to rise in central areas. New housing prices have risen substantially, due primarily to increases in the cost of building materials.

Mortgage Market

Privatization in the early stages of the transition has been considered an important means of reinstating and reinforcing property rights. Under terms of sale, virtually the entire population paid a price for their housing unit and any remaining debt was wiped out by inflation. In just a short time, Romania became a nation of debt-free homeowners. However, this high rate of ownership discourages job relocation where one would have to take on a new mortgage debt when purchasing a new home in another city.

Policy Developments

The National Housing Agency has laid the groundwork for a new institutional approach to housing policy issues, as well as mortgage finance issues.

Sources and References

1. IMF: International Monetary Fund, Financial Statistics, 2000. http://www.imf.org
2. UN / ECE Environment and Human Settelements Division. "The Transition of the Housing System in Romania," January 2000.

Russia

Economic Background

Year	Exchange Rate Ruble/US$	Consumer Price Index	Change In Consumer Prices	Ruble: Production Based Nominal GDP (Millions)	US$: Nominal GDP (Millions)
1993	0.99	N/A	874.62%	171,510	173,242
1994	2.19	N/A	307.63%	610,745	278,879
1995	4.56	N/A	197.47%	1,540,490	337,827
1996	5.12	N/A	47.73%	2,145,660	419,074
1997	5.78	N/A	14.74%	2,521,940	436,322
1998	9.71	N/A	27.67%	2,684,540	276,472
1999	24.62	N/A	86.00%	4,545,000	184,606

Source: IMF

Liberalization and restructuring of the Russian economy started in 1992 with the collapse of the centralized and planned economy. The most cardinal changes in the Russian economy were under way in 1992 - 1993. The price liberalization of 1992 produced 2,500 % inflation, followed by 850 % in 1993. This period saw the restructuring the economic management system in general, the onset of mass privatization in various sectors, including housing, and the emergence and dynamic growth of private companies and commercial banks.

The process of reforming in Russia turned out to be very painful for the majority of enterprises and residents. Russia witnessed a 50 % cut in the manufactured output from 1991 to 1999, and a net decline of 40% in measured GDP between 1991 - 1998, accompanied by a dramatic fall in individual real incomes.

However, from late 1994 the macroeconomic situation in Russia demonstrated a growing stability marked by the emergence of several promising trends in the economic development. During this period Russia witnessed the formation of new credit, financial and industrial institutions typical for countries with strong market-oriented economies. An interest rate reduction in late 1995 resulted in the creation of a favorable environment for the development of long-term lending. The best period was 1997, when inflation was less than 11% and the growth in real individual incomes was 3.4%.

The August 1998 financial turmoil resulted in the bankruptcy of a great number of companies, including many commercial banks. The federal government's refusal to repay its internal debt resulted in frozen bank deposits and a declared moratorium on repayment of bank debt commitments; simultaneously the government abandoned a policy of keeping the Ruble exchange rate in the "currency corridor". The downfall of the Ruble exchange rate demolished the value of Ruble savings and incomes in terms of USD and created a growth in inflation (rising from almost nothing to 80 % in 1998) due to the strong import-dependence of the Russian economy. However, for several industries, the crisis gave the opportunity to rapidly increase their output and offer their products on the domestic market as a substitute. In the first six months of 1999 the inflation rate was down to 24 %, and the Ruble/USD exchange rate stabilized at 24-25 Rubles per USD 1.00.

Housing Markets

The onset of the general economic restructuring in Russia stimulated the reforms in its housing sector, the priorities of which were formulated in the Federal Law "On Fundamentals of the Federal Housing Policy" (1992). There were four major components of reform. The first one was a gradual increase in rents and utility charges paid by tenants of state and municipal residential units. This program was launched in 1994, but progress has been slow, with actual coverage of all costs by tenants reaching only 35 % so far.

The second task was the development of a competitive structure in the housing construction and maintenance sectors. The third task was the creation of a more efficient system of housing finance subsidies and the fourth was the promotion of the market-oriented instruments of housing finance.

With less federal budget funds available to finance residential property construction, the responsibility to address the perennial shortage of housing was shifted to municipal budgets. The previous mechanism of free-of charge allocation of housing became nearly inoperative, so that in 1997 there was only a quarter as many units allocated as in 1990. Federal funding was restricted to a few highly targeted groups: military servicemen, including retired personnel; citizens resettled from Far North Regions and those displaced by the Chernobyl catastrophe.

Creation of more effective budgetary housing subsidy schemes became an imperative alongside the task of creating market-based mechanisms for housing finance. In 1993, the President adopted the decree "On the Development and Introduction of Non-Budgetary Forms of Investment Into the Housing Sphere," and the Government passed the Program "Housing" (with one of its components - housing finance - later, in 1996, detailed and expanded in a separate program "Your Home"). These documents set out the main steps, most of which are being implemented:

1. The provision of up-front housing subsidies to individuals for construction or purchase of housing;
2. The issue of housing certificates (bonds) or other securities to finance housing construction;
3. The development of long-term mortgage lending;
4. The creation of a secondary market through the formation of the Federal Agency for Mortgage Lending.

Mortgage Market

To fulfill the task of promotion of long-term residential mortgage lending it was first necessary to develop an adequate legislative framework. The previous legislation, in fact, deprived the lender of the right to satisfy his or her mortgage claims and evict the debtor from the mortgaged property in event of default.

The Law “On Pledge” passed in 1992 and provided the general guidance for pledge transactions. The Decree “On Housing Loans” (1994) laid forth the procedures for originating mortgage loans for purchase of housing units and land plots or housing construction. The Presidential Decree of 1996 formulated once more the provisions of the draft Law “On Mortgage.” However, the court in its practice refused to recognize the decree as legitimate.

In 1995-1996 the Civil Code of the Real Estate Finance was enacted. The Code established the general rules of using real estate, including residential real property, to secure loans. It also formulated grounds for foreclosing a mortgaged residential property, but failed to make the procedure of defaulter eviction more expedient.

Subsequently, the much-needed law “On State Registration of Real Estate Rights and Transactions” was passed in 1997. Finally in 1998 the Law “On Mortgage (Pledge of Real Estate)” was approved, which provided clear guidance on how to solve the foreclosure and eviction problem. According to this Law, the borrower and his household can be evicted from the mortgaged property in the event of default if the borrower gave written consent before moving into the purchased unit. However, the Law left unsettled the problem of eviction when minor children are present.

In addition to high credit risks caused by the lack of well-defined provisions favoring banks in the event of loan default, the development of residential mortgage lending was also impeded by:

- High and volatile inflation rates, implying great interest rate risk for long-term lending since banking system’s liabilities were heavily concentrated in short term accounts;
- Extremely low housing affordability;
- Lack of the relevant expertise and skills in providing such services on long-term mortgage lending to clients;
- A high rate of return of alternative hard currency operations and later, since 1994, of operations with treasury bills (GKOs) which provided alternative lower risk investments for banks.

Despite problems in making long term loans for unit purchase, there has been progress in initiating mortgage lending. Banks became rather innovative in the creation of various “quasi mortgage” schemes, which made it possible to lower credit risks in the situation of legislative ambiguity. According to experts’ estimates (official statistics are unavailable), in 1997 the volume of extended loans totaled USD 100 million.

Alongside the creation of conditions favorable for the promotion of long-term mortgage finance, the government has sought to promote housing finance beyond credit and banking institutions. The prime motivation for this effort was the promotion of the production and sale of new housing. Among other initiatives, developers attracted prospective housing purchasers at the construction stage (using share participation, or investment contracts). Developers also tried to sell completed housing "by installments", where a purchaser pays for the unit during a set period of time and acquires the ownership right only upon full payment of its price.

Regional and local authorities mostly issued certificates. In 1994 the total amount of issued certificates was about USD 250 million (Rbls. 500 billion). Housing certificates were particularly popular during the period of negative bank deposit interest rates (1994 - 1995). Currently the issuance of such certificates is going down.

A survey of interested banks conducted in early 1997 showed new trends in the development of mortgage lending. On the whole, loan terms were longer than before. Some banks had started making loans for five and even ten years. More active use was made of "pledge-purchase" housing rather than the common "rent-purchase" scheme. Experience had indicated that nonpayment on housing purchase loans was low and might be reduced to the minimum through use of prudent borrower qualification procedures, which made a "classic" mortgage contract possible.

The financial crisis of August 1998 made commercial banks aware of the need to diversify their activities by expanding their services in more stable segments of the financial market than securities. Today many consider retail residential mortgage lending as one of the most promising types of these activities. Commercial banks make loans characterized by LTV ratios of over 50%, an interest rate varying from 20% to 28% on loans denominated in US Dollars, and 2 - 5 year terms of repayment with some up to 10 years.

The Agency for Housing Mortgage Lending was created to develop the secondary mortgage market in Russia. The Agency was founded in 1997 with the technical assistance of USAID. The Agency has proposed the following scheme of operations: it purchases mortgage loans which commercial banks have extended to private clients for a term of 5 - 10 years loan. The Agency will then issue securities, which will serve as a source of funds for the Agency and which will also carry the guarantee of the RF Government and/or governments of the Federation subjects.

In 1999 the Agency launched a pilot project of refinancing housing mortgage loans extended by Saint Petersburg banks to private clients. The city administration of Saint Petersburg issued guarantees to back the debt commitments issued by the Agency for mobilizing additional resources (USD 30 million).

Before the August 1998 financial crisis most loan products offered by Moscow banks were Dollar-denominated with interest rates fixed at 22-27 %. The borrower made regular payments in Rubles at the current exchange rate. This instrument appeared to be rather effective during the periods of comparative equilibrium in the Ruble to Dollar exchange rate, when many companies pegged wages still paid in Rubles to the USD exchange rate. In such circumstances the loan instrument with a Dollar-denominated fixed interest rate was rather attractive for individual clients who, owing to this, were able to design their payments in advance.

The financial crisis has dramatically changed the situation on the employment market in major cities, to say nothing about small cities and towns. A significant decline in individual incomes and unpredictable behavior of the Ruble exchange rate, which shows a persistent downward tendency, increased the credit and currency risks associated with the use of the currency-denominated loan instrument with fixed interest rate.

The key factors restricting the demand for mortgage finance are a very high ratio of the unit price to household incomes for most households, the high real and nominal cost of long-term lending, lack of public confidence in the banking system, and general ambiguity of the economic situation. Prior to the devaluation shock, house price to income ratios had fallen to low levels in Moscow (2.6) and some other regions (Irkutsk 4.4) but after the shock in 1998 had jumped back to early 1990 levels of 6 or more.

Rapid inflation (at 54 % annual rate in the first half of 1999), high level of Ruble interest rates and bank costs, and perceived and real risks all dictate a high margin on retail mortgage lending. For example, Sberbank the former state saving bank and largest commercial bank in Russia originates mortgage loans at 42 % in Rubles. With average per capita income in Russia equal to 1000 Rubles (USD 40) and only 35% of residents having incomes above the average, any such loans are affordable only for a very small fraction of households.

Sources and References

1. Diamond, D., The Transition In Housing Finance In Central Europe And Russia: 1989-1999, Report prepared for USAID, November 1999
2. IMF: International Financial Statistics, 2000
3. Struyk R. and Kosareva N., "*Natasha Mae*: The First Secondary Facility in the Former Soviet Bloc", Housing Finance International, 13, 3, March 1999

SLOVAKIA

Economic Background

				Koruna	US $
Year	Exchange Rate Koruna/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1991	N/A	59.22	61.22%	N/A	N/A
1992	N/A	65.11	9.95%	N/A	N/A
1993	30.77	80.24	23.24%	369,100	11,995
1994	32.04	91.00	13.41%	440,500	13,748
1995	29.71	100.00	9.89%	516,800	17,395
1996	30.65	105.81	5.81%	575,700	18,783
1997	33.62	112.27	6.11%	653,900	19,450
1998	35.23	119.79	6.70%	717,400	20,363
1999	41.40	132.46	10.57	779,300	18,824

Source: IMF

The recession in Slovakia that immediately followed 1989 was fairly severe (a net decline of 25% in measured GDP), but the recovery that started in 1994 has proceeded strongly thereafter. Real growth peaked at 7.4 % in 1995 and remained strong until recently. Direct foreign investment has been relatively low, apparently because of political uncertainties, but a strong export market has sustained economic growth

Inflation was also relatively moderate, with a surge up to 60 % in 1991 followed by a decline to less than 10% since 1995. Despite a significant devaluation in the second half of 1998, inflation has remained low, running about 6-7 %. Growth has remained positive recently, although more muted. Unemployment has fluctuated in the 11-13% range in recent years.

Housing Market

The Slovak Republic (Slovakia) was part of Czechoslovakia during the Socialist period and shared with the Czech Republic, as well as with Poland, an emphasis first on state-owned rental flats and then on co-operative owned and managed flats. However, throughout the socialist period, there remained the possibility of obtaining an owner-occupied family house, if one could procure the land and building materials needed to complete it. In fact, in the 1980s, about half of all new units were such family houses.

Slovakia is nearly as large as the Czech Republic, but has only half of the population at 5.5 million. The population is significantly rural, with 43% living in villages and only 25% in towns of over 50,000. As of 1990, the overall housing stock of 1.8 million units was distributed in the following manner:

Housing Unit Status in 1990

Owner-occupied:	
Family Houses:	50 %
Co-operatives:	23 %
Public Rental:	27 %
Other Rental (mostly employer):	none
Private Rental:	none

Source: (Diamond 1999):

New production plunged sharply after 1990. Starts data were not compiled from 1992-1994, but even by 1991, starts had dropped 84 % from 1990 (to about 6,000 units), a bit sharper fall-off than in the Czech Republic. Data was compiled again after 1994 and shows the same low level until 1996.

STARTS AND COMPLETIONS OF HOUSING UNITS: 1989-1997

YEAR	# Of Units Started (000)	# Of Units Completed (000)
1989	35.7	33.4
1990	32.9	24.7
1991	5.9	20.8
1992	NA	16.4
1993	NA	14.0
1994	NA	6.7
1995	4.0	6.2
1996	6.4	6.3
1997	12.8	7.2
1998	16.9	8.3

Source: Diamond 1999

Faced with continuing low levels of housing activity, in 1995 government policy moved towards more immediate stimulation of housing construction. A large amount of funding Sk. 2.0 billion (about USD 62 million) was secured from the National Privatization Fund and placed into finishing uncompleted municipal flats. Then in 1996 a State Housing Fund was set up to make low rate loans directly to households. It started at a relatively modest level of Sk. 800 million for about 1000 units in 1996, but ballooned to about Sk. 3.5 billion in 1998, with plans to go to Sk. 6 billion in 1999.

The general economic recovery that started in 1994 had not stimulated housing starts significantly. Housing financed by the State Housing Fund appears to account for most of the sharp recovery of housing starts (12,700 as of 1997), with approvals under that program alone providing for 7,000 units in 1997 and 1998.

In addition to this recovery in the new construction sector, significant progress has been made since 1994 on "marketizing" the previous stock of municipal housing. The prices of the units have been set very low and as of 1998 it appears that about 40% of the units have been privatized, up from 2 % as of 1994.

Mortgage Market

Slovenska Sporitelna (SLSP) (Slovakian Savings Bank) has dominated the Slovak retail banking market. SLSP made housing loans on the old terms of 2.7 % for 30 years through 1992, when 13,400 loans were made for Sk. 1.4 billion. For two years, it only offered shorter-term loans at commercial rates. It began offering long-term housing loans again in 1995, at a very preferential rate (11.5%) compared to commercial loans. After a slow start in 1995, almost 10,000 loans were made in 1996, for an average amount of USD 3,400, about the same as in 1992. The rate went up to 12.5% in 1997 and demand declined to only 1,200, but the average size jumped to USD 10,000. This pace was maintained in early 1998, but decreased after the mortgage rate was increased to 15.5% as of June 1998, in line with a general increase in interest rates.

Interest Rates

Year	Lending Rate	Deposit Rate
1993	14.41%	8.02%
1994	14.56%	9.32%
1995	16.85%	9.01%
1996	13.92%	9.30%
1997	18.65%	13.44%
1998	21.17%	16.25%
1999	21.07%	14.37%

Source: IMF

In 1999, mortgage rates declined somewhat, to 13.50 %. However, this is significantly less than the return on government debt, which is running around 16 %. As noted below, this is presumably because of non-market pricing associated with government control of SLSP.

Slovakia was the first Central European country to start a system of Building Societies (Bausparkassen). The needed legislation was passed in May 1992 and the Prva Stavebna Sporitelna (PSS) or “First Construction Saving Bank” started business in November 1992. It was a partnership between SLSP; the largest German Bauspar, Schwabisch Halle; and a large Austrian Bauspar, Raiffeisen. Soon thereafter, the other major post-socialist bank, Vseobecna Uverova Banka (VUB) (General Credit Bank), joined with the Wüstenrot group to open up VUB-Wüstenrot in June 1993. However, PSS has captured about 85 % of the market.

The Bausparkassen system grew quickly in Slovakia. This was partly because, in its original format, it offered the opportunity to cash out of an account after one year and still keep the premium. This created strong incentives to do that each year, rather than save for several years. But even without these extraordinary returns being available, the tax-free 40% premium promised a higher after-tax return on Bauspar savings than on unsubsidized market opportunities.

Table 2 gives the cumulative results of the system.

TABLE 2: ACTIVITIES OF BUILDING SOCIETIES IN SLOVAKIA

	1993	1994	1995	1996	1997	1998	1999

							(est.)
New Contracts (000)	174	217	272	338	157	182	168
Contracts Outstanding (000)	228	432	644	923	907	920	900
Net Savings (Bil. Sk.)	?	?	12.9	21.1	32.6	40.0	
Net Loans (Bil. Sk.)[7]	0. 0	0.0	0.0	0.3	2.2	6.0	
State Premiums (Bil. Sk.)	0.0	0.5	1.5	2.9	3.0	3.2	
Premiums/State Budget (%)	0.0	0.3	0.9	1.5	1.4	1.3	

Source: Diamond

Slovakia has introduced mortgage banking modeled after the Czech Republic approach of allowing universal banks to obtain licenses for mortgage banking activity and fund loans out of deposits, as long as they keep separate legal and accounting records on the activity and are "primarily" funding loans from mortgage bonds. The arrival of mortgage banking has had little impact so far. Only three banks have obtained a mortgage-banking license; Vseobecna Uverova Banka (VUB) started operations in late 1997 and it has not issued any bonds. The significant difference between the two countries in their development of mortgage banks is that Slovakia has not initially endowed mortgage banking with as many subsidies as provided in the Czech Republic. The mortgage bonds are tax-exempt and this is worth about a 1.5-2.5 % advantage over the return on government bonds, which are subject to a 15 % withholding tax.

Currently, the great majority of mortgages continue to be made by SLSP based on a standard adjustable rate design, usually for 15 years. The rate as of June 1999 was only 13.25 %, down from 15.5 % in 1998 but up from 12.5 % applicable since 1996. SLSP has also started offering fixed rate loans at 13.5 % for 5 years, since the mortgage banking law requires that the term on the loan rate match the term on the bond.

In Slovakia, the mortgage banking law allows LTV ratios only up to 60 %, not the 70 % as in the Czech Republic. However, VUB does offer additional loans beyond the "mortgageable" amount. The payment-to-net income (PTI) ratio is usually about 30-35 %.

A recent feature on the Slovak housing finance market is the offering of "instant loans" by the Bauspars. Apparently, they will immediately provide a Bauspar loan at 6-7 %, or almost the conventional 6 % rate, if the saver deposits the full amount of the savings portion of a contract with the Bauspar. In effect, the Bauspar lends the borrower funds at 7 % but half the funds come from the savers' own funds, so the effective cost for the additional funds is 14 %, similar to the rate at a regular bank. However, as the loan is repaid, the principal payments are counted as "savings" under the Bauspar law and thus earn the 30 % premium. The net effect is that the cost of funds under this scheme for an immediate loan is lower than for loans from the regular bank.

Sources and References

1. Diamond, D. "The Transition In Housing Finance In Central Europe And Russia", Urban Institute, October 1999.

[7] *This includes only loans to regular clients. In 1997, there were also about Sk. 200 million in loans to companies for construction.*

2. IMF: International Financial Statistics, 2000

Contacts

1. Institute for Urban Economics
   Yelena Yelagina
   External Relations Officer
   12th Floor
   36 Lyusinovskaya Str
   Moscow, Russia 119870
   Tel: 7.095.236.14.67
   Fax: 7.095.236.5286
   Email: Furbin1@cityline.ru

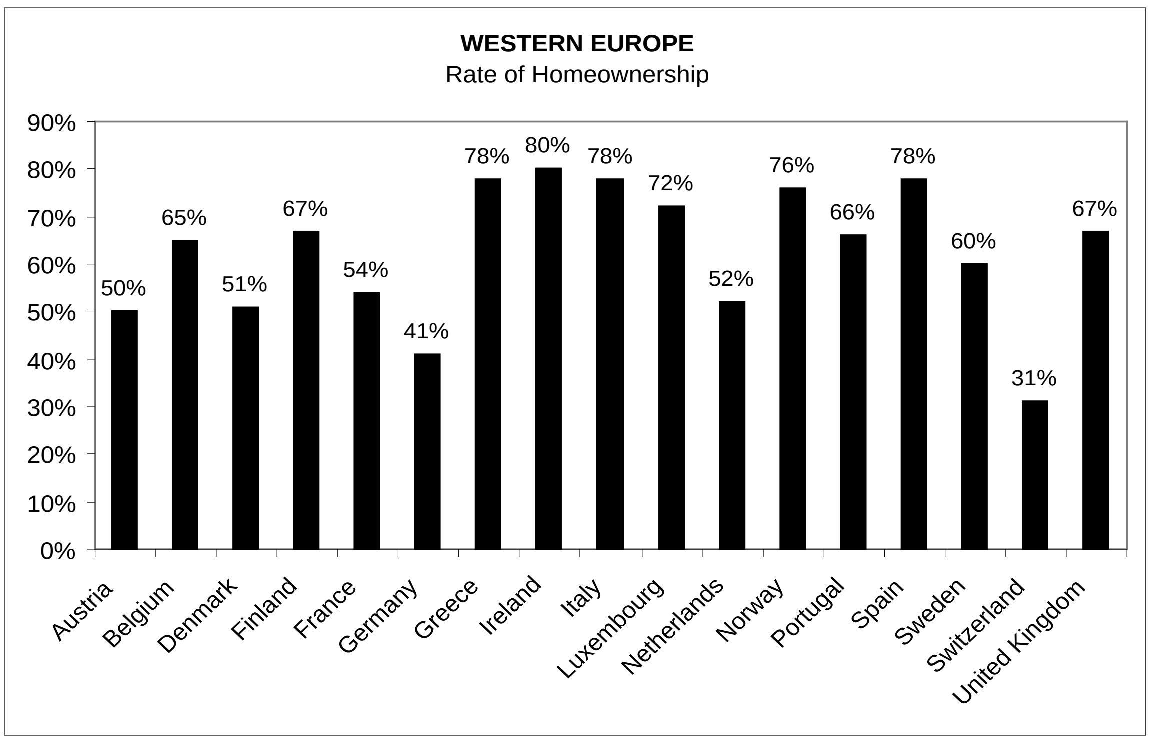
WESTERN EUROPE

Regional Summary

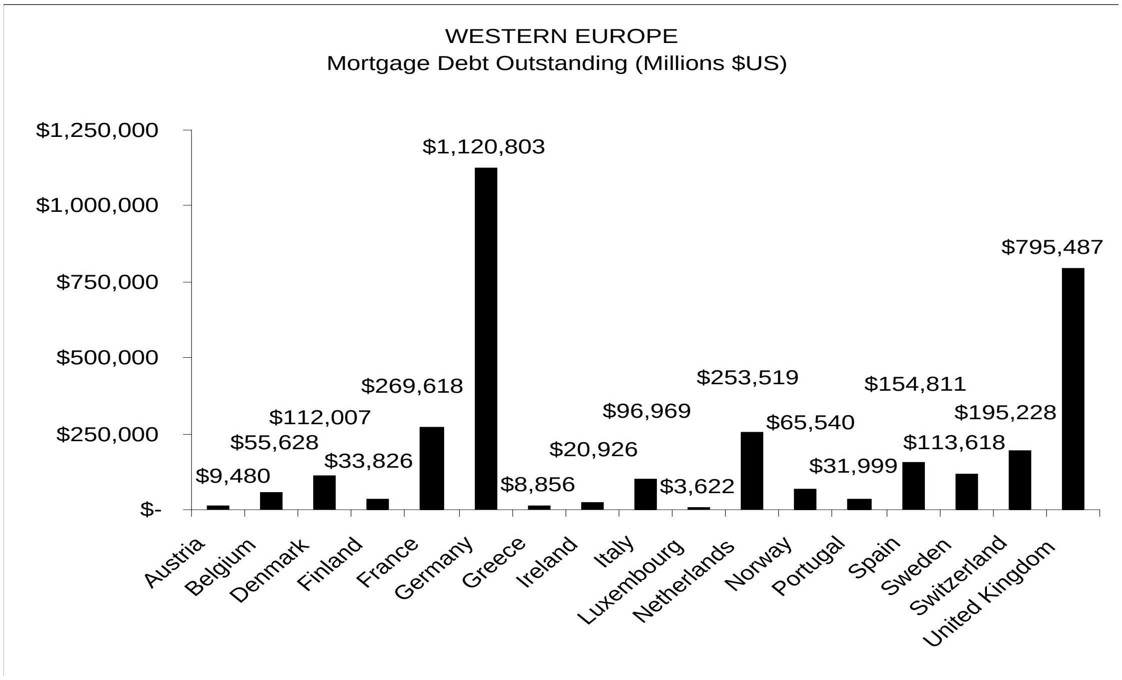
Western Europe

As the European Union moves forward with its common currency, it is faced with the challenge of managing highly diverse rates of growth with a common monetary policy. The economies of the so-called peripheral countries (e.g., Ireland, Spain, Portugal) are booming, whereas the economies of the so-called core countries (e.g., France, Germany and Italy) are exhibiting slow growth with high rates of structural unemployment. The monetary policy of the European Central Bank has kept rates low to encourage growth in the core countries, but this has contributed to a substantial weakening of the Euro relative to the Dollar and Yen. It also risks exacerbating inflationary pressures in the peripheral countries.

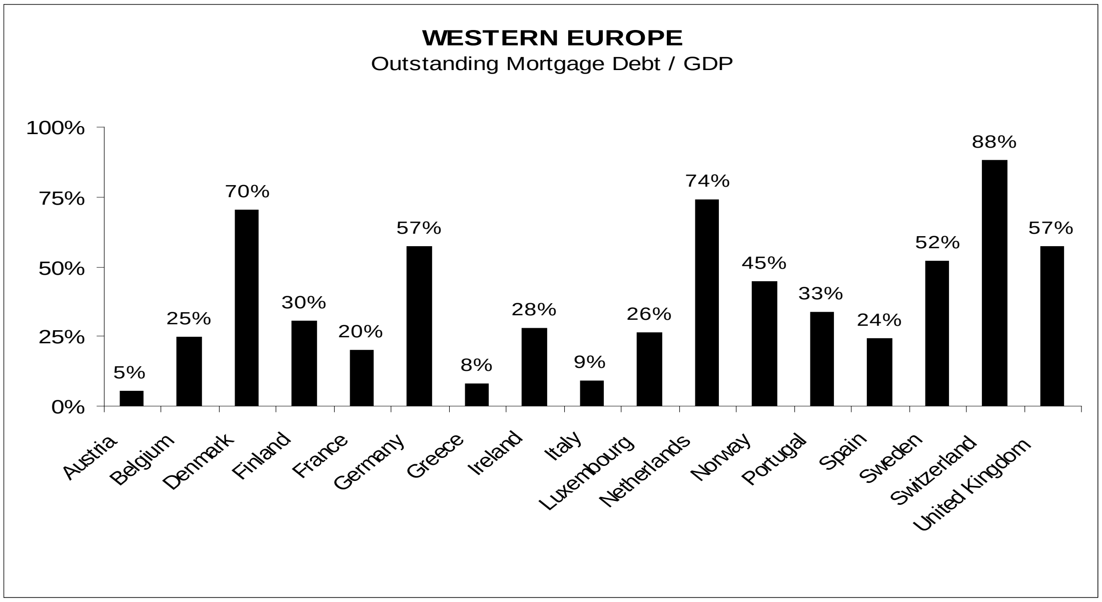
European housing markets are quite varied. Five countries have an owner-occupied rate of 75% or greater (Greece, Ireland, Italy, Norway, and Spain). However, Austria, Germany and Switzerland have homeownership rates of 50% or less. House prices also vary greatly, averaging more than $US 200,361 (for a 150 m2 house or 100 m2 flat) in Germany and the UK and less than less than $US 125,225 in Spain and Portugal.



The use of mortgage debt is also quite variable. Germany and the United Kingdom have the largest mortgage markets in terms of mortgage debt outstanding (1,120,803 million $US and 795,487 million $US, respectively).



The size of the mortgage markets relative to the country economies is also quite variable. Outstanding Mortgage Debt–to-Gross Domestic Product ratios exceed 70% in 3 countries and 50% in 6 countries. However, Mortgage Debt–to-GDP is less than 10% in 3 countries, and it is 30% or less in 9 countries. A number of factors create these differences including diverse economies (less debt in more volatile economies), diverse cultures (some favoring savings over debt), diverse housing markets and legal and tax system differences.



The principal lenders in Western Europe are banks (commercial, cooperative, savings). These institutions have over 60% of mortgage debt outstanding. Specialized institutions, such as building societies and mortgage banks, are declining in importance on an aggregate basis but are still important lenders in particular markets.

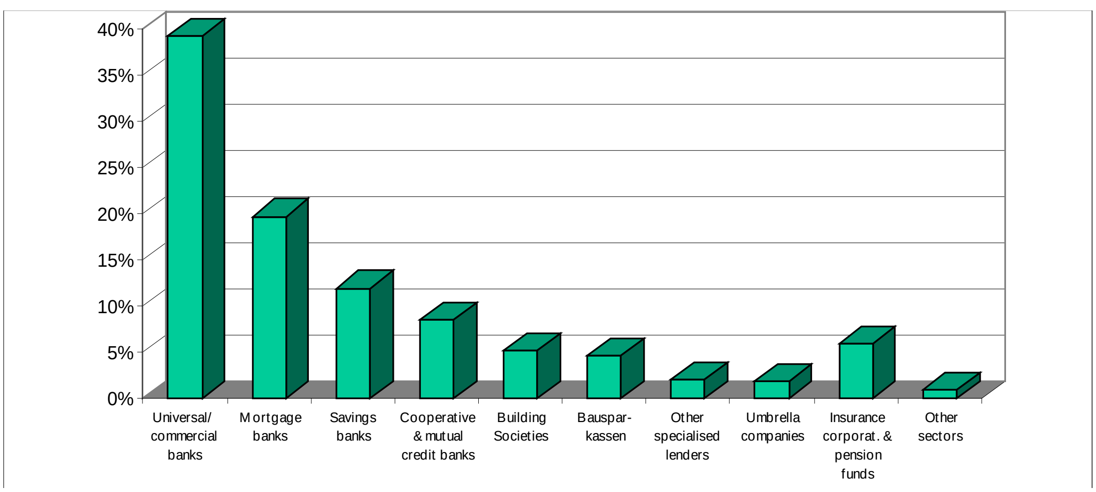
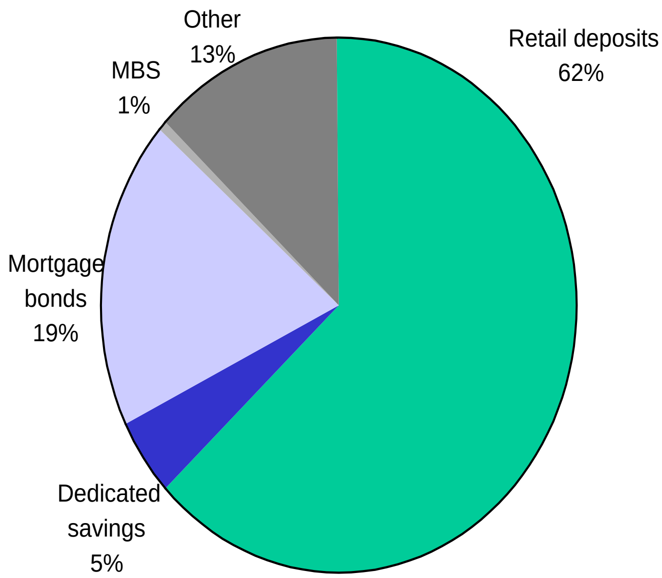


Figure 1

Source: European Mortgage Federation

Mortgage funding comes primarily from retail deposits in Western Europe, reflecting the dominance of banks as mortgage lenders. Mortgage Bonds are the second most important funding source accounting for 19% of mortgage funding. Securitization has existed in some countries like the United Kingdom for over a decade, whereas it is a new concept in the majority of the countries. As such, it accounts for only 1% of funding. In Austria, France and Germany dedicated savings through contract savings plans provides a significant source of funding for housing.



Source: European Mortgage Federation

Austria

Economic Background

				Austrian Schilling	US$
Year	Exchange Rate Schilling/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	10.6770	85.27		1,813,480	169,849
1991	10.6890	88.11	3.30%	1,945,820	182,039
1992	11.3540	91.67	4.00%	2,057,270	181,193
1993	12.1430	94.99	3.60%	2,125,340	175,026
1994	10.9690	97.80	3.00%	2,237,940	204,024
1995	10.0880	100.00	2.20%	2,328,740	230,843
1996	10.9540	101.84	1.84%	2,414,640	220,435
1997	12.6330	103.19	1.30%	2,514,370	199,032
1998	11.7470	104.13	1.00%	2,622,630	223,260
1999	13.7000	104.71	0.56%	2,677,705	195,453

Source: IMF, Morgan Stanley, Economist

Real GDP growth in Austria was forecasted to rebound in 2000 as export markets continue to revive. GDP growth fell from 3.3% in 1998 to 2.1% in 1999, but it was forecasted to rise to 3.3% again in 2000 (Morgan Stanley). Domestic demand is expected to accelerate due to an increase in family allowances and a reduction in income taxes, which took effect at the beginning of 2000. Austrian inflation remains below the Euro-area average, but it has been rising due to increasing energy prices.

Housing Market

Year	Housing Starts	Housing Completions	Permits Issued	House Price Index New*	House Price Index Existing**
1992	42,000	40,900	51,900		85
1993	52,000	43,400	58,300		91
1994	59,000	48,800	61,000	119	95
1995	56,000	53,400	66,700	123	98
1996	55,000	53,000	65,000	125	100
1997	54,000	53,000	60,000	128	102
1998	48,000	57,800	49,700	131	103
1999	46,000	54,220	47,000	134	103

Source: EMF

Austria has 3,413,000 dwelling units, with 50% owner-occupied. The population of the country is 8.07 million (1997). The property market in Austria has been rather stagnant over the past 3 years with new construction and permits below their 1994-1995 peaks. As a result, house prices have been flat or falling. The activity in the construction sector has shifted towards refurbishment and renovation. The average, building costs in Austria range from 100.000 Euro (houses for more than 2 families) up to 160.000 Euro (1-2 family houses). on On average 49% (1-2 family houses) to 58% are financed on credit.

Mortgage Market

The Austrian mortgage market is relatively small, with mortgage debt-to-GDP of only 5%. As shown in the table below, statistics on the Austrian mortgage market include both residential and commercial mortgage loans, and they reflect only members of the European Mortgage Federation. The mortgage market has been stagnant, reflecting the slow economy and housing market. Mortgage loans are granted by 7 types of institutions, including joint stock banks, savings banks, mortgage banks (Landes-Hypothekenbanken), co-operative and agricultural co-operative banks, Bausparkassen and specialized banks.

Residential and Commercial Mortgage Market* AS millions

Year	Outstanding Mortgage Debt/GDP	Mortgage Debt Outstanding	New Originations Net	New Originations Gross
1992	5.5%			
1993	5.3%			
1994	5.3%	117,193	3,960	N/A
1995	5.2%	122,734	5,537	16,504
1996	5.1%	125,756	3,026	16,881
1997	5.1%	130,046	4,296	16,377
1998	5.0%	131,149	1,101	11,338
1999	5.0%	130,214	936	12,797

*EMF Members Only ; Source EMF

The 5 building societies in Austria financed 2.2 Billion Euro in 1998 resulting in a 20% market share. The S Bausparkasse is the market leader in the building societies system with a market share of one third of all Austrian building societies. They are followed by Raiffeisen and Wüstenrot building societies.

The types of products are dependent on the type of lender and funding instrument. Fixed-interest and variable-interest loans, with terms of up to 20 years, with and a period of fixed interest not exceeding 10 years, are the typical products offered by banks. Savings banks offer similar loans along with reviewable, interest rate loans. The mortgage banks originate 20 year20-year term loans, generally with a fixed interest period of 5-10 years. First mortgages with a maximum LTV of 60% of the conservatively estimated value of the real estate are eligible as cover for mortgage bonds.

Interest Rates

			Mortgage rates		
Year	Money Market i.e. Interbank	Deposit	Fixed (# yrs.)	Variable	Long-Term Govt. Bond Yield
1990	8.53%	3.41%	N/A.	10.1%	8.74
1991	9.10%	3.75%	N/A.	10.3%	8.62
1992	9.35%	3.69%	N/A.	10.7%	8.27
1993	7.22%	2.98%	N/A.	8.4%	6.64
1994	5.03%	2.31%	9.00%	8.5%	6.69
1995	4.36%	2.19%	7.60%	7.0%	6.47
1996	3.19%	1.71%	7.80%	6.5%	5.3
1997	3.27%	1.50%	6.50%	5.5%	4.79
1998	3.36%	1.50%	6.00%	5.0%	4.29
1999			5.50%	N/A.	4.09

Source: EMF, IMF

The Bausparkassen offer a savings contract of 6-7 years on average, after which the saver has a right to a loan. The government provides a savings bonus upon completion of the contract. The loans are available at a below market, fixed interest rate (fixed spread over savings rate) for maturities between 7 and 30 years. The Bausparkassen also grant, to a limited extent, temporary advances or bridging loans to their savers. At the end of 1999, rates on fixed rate loans were approximately 4.5%. The mortgage loans of building societies are in general limited to 138.000 Euro per person. 65.5% of the Austrian citizens have a savings account at one of the 5 building societies, totaling 5.285 million saving accounts.

A substantial demand for "moderate-cost" housing resulted in legislation to create creating a new type of specialized bank, the so-called housing construction banks. These banks issue "housing construction loans". the The interest rate on which is exempted to up to 4% from taxation. The funds contributed must be invested in subsidized housing construction. All Austrian credit institution sectors have a specialized bank of this kind.

Most funding for mortgages comes from retail and contract savings deposits. The mortgage bond market in Austria has been shrinking, particularly due to repayments of bonds of public sector institutions.

Mortgage Bonds (millions AS)

Year	Issued	Outstanding
1994	8,498	69,403
1995	9,002	71,577
1996	4,970	65,993
1997	9,468	67,942
1998	7,472	67,467
1999	10,128	68,237

Source: EMF

Sources and References

1. Austrian Association of Bausparkassen
2. European Mortgage Federation, Mortgage and Property Markets in 1999, Brussels 2000 www.hypo.org
3. European Mortgage Federation, Hypostat 1988-1998, Brussels 1999
4. IMF: International Financial Statistics, 2000 www.imf.org
5. Morgan Stanley Dean Witter, Inside the Global Economy, May 2000. www.msdw.com

Contacts

1. Dr. Charlotte Harrer
   Die s Bausparkasse/Öffentlichkeitsarbeit
   Tel. 43.1. 71108 - 9326
   E-Mail: s.bausparkasse@telecom.at
   http://www.sbausparkasse.at/

2. Association of Austraian Sparkassen
   Grimmelshauseng 1; A-1030 Wien

Belgium

Economic Background

				Belgian Franc	US$
Year	Belgian Franc/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	30.98	88.62	3.50%	6,593,000	212,815
1991	31.27	91.46	3.20%	6,909,000	220,947
1992	33.18	93.69	2.40%	7,273,000	219,198
1993	36.11	96.27	2.80%	7,431,000	205,788
1994	31.84	98.55	2.40%	7,793,000	244,755
1995	29.42	100.00	1.45%	8,129,000	276,309
1996	32.01	102.06	2.06%	8,304,000	259,419
1997	36.92	103.72	1.10%	8,712,000	235,970
1998	34.57	104.71	1.01%	9,089,000	262,916
1999	40.10	105.88	1.10%		-

Source: EMF, IMF, Morgan Stanley, Economist

Belgium's economy has experienced modest growth over the past 2 years. GDP growth accelerated in the last half of 1999 as consumer confidence improved. Unemployment remained high, but it fell from 9.5% in 1998 to 9% in 1999. On the back of higher oil prices and rising economic activity, inflation accelerated at the end of 1999 and was forecasted to rise to 1.7% in 2000. Over the past few years, Belgium has introduced a comprehensive plan to tackle its high unemployment rate. The measures are aimed at improving the skill level of the workforce, raising supply and demand of labor and increasing labor market flexibility. An important step in this direction is a significant reduction in social security contributions, which will take place in the second quarter of 2000.

Housing Market

				House Price Index	
Year	Housing Starts	Permits Issued	Transactions Involving Dwellings*	New	Existing
1992	46,644	50,076	104,875	108	115
1993	43,705	55,008	104,118	110	123
1994	51,821	55,720	104,101	111	132
1995	55,795	40,708	96,262	113	138
1996	40,708	39,600	102,444	113	144
1997	39,600	46,269	105,000	113	148
1998	32,634	39,167	109,250	116	150

Source: EMF; * Estimate. Transactions on new buildings and own construction not included

Belgium has 3,748,000 dwelling units with a 65% homeownership rate. The population is 10.2 million. The housing market has been sluggish during the mid-1990s with housing starts and permits down over 30% from the 1995 high. Property transactions averaged around 105,000 per year and peaked during the annual "Batibouw" property construction forum. House prices for existing units rose 30% between 1992 and 1998, but the prices for new buildings rose by only 7%. The typical price for a 150m2 and 100m2 flat at the end of 1999 was 137,000 Euro.

Mortgage Market

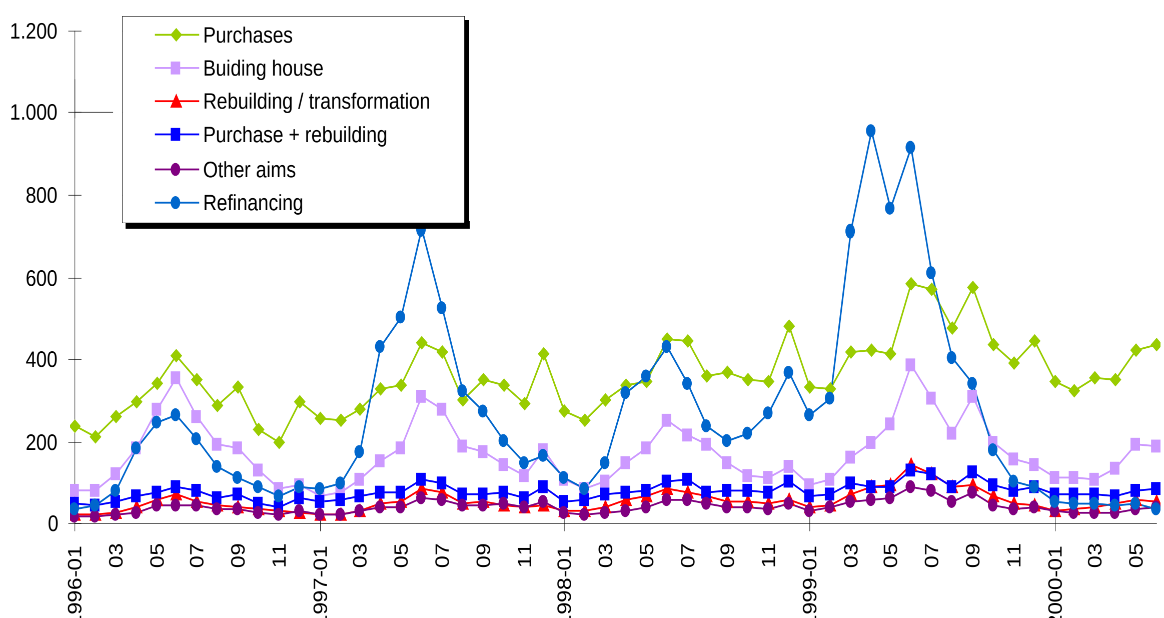
Belgium had a relatively low mortgage debt-to-GDP of 24% in 1998. Lending volume picked up due to a loan-refinancing wave in 1999 brought about by low interest rates.

Residential Mortgage Market (Belgian Franc millions)

Year	Outstanding mortgage debt/GDP	Mortgage Debt Outstanding	New Originations Net	New Originations Gross
1991	20.6%	1,407,994	89,019	139,001
1992	20.6%	1,435,951	N/A	210,129
1993	21.0%	1,551,573	116,459	259,994
1994	21.5%	1,648,218	96,668	340,004
1995	21.1%	1,710,987	62,782	229,283
1996	21.5%	1,824,997	113,982	401,764
1997*	22.2%	2,022,903	232,032	543,759
1998	24.6%	2,239,994	278,628	497,835

Source: EMF *Change in series

In recent years, refinancing has become more pronounced as shown in the Figure below. The peaks in activity correspond with the Batibouw forum. Refinancing may be attributed to new lenders (external) or a renegotiation of loan terms with the current lender (internal). Rising interest rates in early 2000 have sharply slowed refinancing activity.



Source: de Valck

Approximately 91% of mortgage credit in 1998 was provided by commercial banks with mortgage banks providing 3% and insurance companies and pension funds providing the remainder. The big 6 banks, BACOB, BBL, CCB, CGER, Generale de Banque and KBC, accounted for 70% of the volume of mortgage credit granted in 1994-97.

The fall in rates has also stimulated demand for long term, fixed rate mortgages (with rate fixed to maturity). The typical maturity of mortgage loans is 20 years, and both fixed and referenced (variable) rate mortgages are allowed. Variability cannot be less than one year, and typically, mortgage rates are revised every 1,3 or 5 years. There is a maximum 1% per year variation during the first 3 years of the loan. Belgium has experienced growth of mortgage loans with a rate fixed up to maturity. They accounted for less than 20% of new production at the beginning of 1997 and for more than 80% in April 1999. Loans are prepayable but subject to a maximum prepayment penalty of 3 months interest.

Interest Rates			Mortgage rates		Gov't Bond Yields
Year	Money Market i.e. Interbank	Deposit	Fixed (#yrs.)	Variable	Long-Term
1990	8.53%	3.41%	N/A	11.6%	10.1%
1991	9.10%	3.75%	N/A	11.6%	9.3%
1992	9.35%	3.69%	N/A	10.0%	8.6%
1993	7.22%	2.98%	N/A	8.8%	7.2%
1994	5.03%	2.31%	10.40%	10.0%	7.8%
1995	4.36%	2.19%	8.20%	7.9%	7.5%
1996	3.19%	1.71%	7.30%	6.5%	6.5%
1997	3.27%	1.50%	7.60%	6.9%	5.7%
1998	3.36%	1.50%	7.60%	N/A	4.7%
1999*	N/A	N/A	6.90%	N/A	4.8%

*2nd quarter mortgage yield; Source: EMF, IMF

Almost all funding is from deposits. BACOB Bank initially introduced housing loan securitization on the Belgian market in 1997. Two additional banks have subsequently made use of securitization, KBC and Générale de Banque. Outstanding balances of MBS were Euro 1,909 at the end of 1998. Mortgage bond legislation is under discussion. In February 1999, 11 Flemish, social housing institutions pooled their residential mortgage loans to securitize them through *SKV-1* (EURO 324 million). This was the second transaction of its type following *Belsca-1* that pooled residential mortgage loans of 13 Walloon social housing institutions.

Policy Development

A new regulation on the joint settlement of debts has been adopted, allowing for either amicable settlement or compulsory liquidation. The law allows sale by private contract of the attached real estate as opposed to the public sale procedure.
Reviewable rate mortgages have been replaced by a system based on indices (variation calculated according to the difference between the index at the time when the contract is

concluded and the index at the time of the variation). The choice of index is not free. It must be linked to the regularity of the variability.

Sources and References

1. European Mortgage Federation, Mortgage and Property Markets in 1999, Brussels 2000 www.hypo.org
2. European Mortgage Federation, Hypostat 1988-1998, Brussels 1999
3. IMF: International Financial Statistics, 2000 www.imf.org
4. Morgan Stanley Dean Witter, Inside the Global Economy, May 2000. www.msdw.com
5. de Valck, JL, The Mortgage Market in Belgium, presentation at the Pan-European Mortgage Market 2000 Conference, Barcelona, September 2000.
6. Moodys, The Belgium Structured Finance Market 1999 Review and 2000 Outlook, January 2000
7. Credit Suisse First Boston, “Euro-11 Special: Housing Matters”, Economics Research April 2000 www.csfb.com

Contacts

1. Union Professionnelle du Crédit - UPC
   Avenue de la Joyeuse Entrée 12/4
   1040 Bruxelles - Belgique
   Tel.: +32 (0)2 231 07 93
   Fax: +32 (0)2 230 45 47
   Email: secr@upc-bvk.be
   http:\\www.upc-bvk.be

Denmark

Economic Background

				Kroner	US$
Year	Exchange Rate Kroner/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	6.19	90.73	2.64%	825,310	133,330
1991	6.40	92.91	2.40%	857,650	134,008
1992	6.04	94.85	2.09%	887,870	146,998
1993	6.48	96.05	1.26%	900,150	138,912
1994	6.36	97.96	1.99%	965,720	151,843
1995	5.60	100.00	2.08%	1,013,640	181,007
1996	5.80	102.13	2.12%	1,066,810	183,933
1997	6.60	104.36	2.18%	1,117,820	169,367
1998	6.70	106.28	1.84%	1,166,640	174,125
1999	7.40		2.50%	1,184,140	160,019

Source: IMF, Morgan Stanley

Economic growth slowed in 1999 primarily due to weakness in domestic demand. The unemployment rate fell from almost 13% in mid 1994 to just over 5% at the beginning of 2000. The annual rate of inflation rose to 2.5% in 1999, and it is expected to remain somewhat higher than the Euroland average in 2000. Denmark held a referendum on joining the Euro currency in September 2000. The population rejected the proposal to join by a 53% to 47% majority. Nevertheless, the Danish economy is tightly tied to the Euro and the rejection is not anticipated to have major, economic effects.

Housing Market

There were 2,476,000 dwelling units in Denmark. 51% were owner-occupied (1998). The population was 5.3 million. After a stagnant period in the early 1990s, housing construction and transactions rebounded.

Year	Housing Starts	Housing Completions	Permits Issued	Transactions Involving Dwellings	Construction Cost Index	Existing House Price Index
1992	14,811	16,355	15,269	60,052	107	95
1993	12,276	14,131	13,025	63,232	108	101
1994	13,357	13,787	14,259	71,350	111	108
1995	13,538	13,503	12,900	74,050	115	108
1996	16,134	13,735	16,791	76,900	118	118
1997	17,217	16,855	17,481	78,068	122	128
1998	17,459	17,163	18,334	76,565	130	134
1999	15,710	15,537	16,761	81,302	134	142

Source: EMF

In 1999, prices of single-family and terraced houses rose by about 9% compared to around 8% in 1998. For owner-occupied flats, prices rose by 5%. The typical price for a 150m2 and 100m2 flat at the end of 1999 was 130,000 Euro. Realkreditrådet's (Association of Danish Mortgage Banks) statistics indicate a drop in the number of transactions of single-family and terraced houses of just below 6% and 3% in 1999. There has also been a moderate fall in the number of housing starts and completions, but the number remains at a fairly high level. Denmark is known for having a highly efficient title registration system, which provides protection of lender mortgage rights that form the security for mortgage bonds.

Mortgage Market

Denmark has one of the most developed mortgage markets in Europe. The ratio of mortgage debt to GDP at 70% is one of the highest in Europe. Gross mortgage lending decreased slightly in 1999 compared with the historically high levels in the preceding year. Net lending also fell relative to 1998 reflecting a decreasing volume of lending for owner-occupied housing. Net lending for non-residential purposes rose in 1999 compared to the year before.

Residential Mortgage Market* (DK million)

Year	Outstanding Mortgage Debt/GDP	Mortgage Debt Outstanding	New Originations Net	New Originations Gross	Number of New Mortgage Loans
1992	64.6%	525,737		56,273	111,996
1993	61.3%	523,497	11,273	137,599	252,224
1994	62.4%	561,301	18,870	177,103	314,586
1995	60.3%	570,001	24,486	100,938	193,906
1996	60.5%	606,998	35,338	139,419	250,987
1997	65.1%	720,297	47,515	167,626	292,543
1998	66.9%	780,349	54,845	252,298	379,876
1999	70.3%	832,198	44,102	217,903	314,632

Source: EMF *EMF members only

The Danish mortgage market is dominated by 10 specialized mortgage banks that are regulated by the Mortgage Credit Act. The six largest are ranked by capital above. These institutions provide approximately 85% of the total credit. The remainder of credit is provided by commercial and savings banks often in the form of unsecured "top-up" loans.

There have been significant, structural changes in the Danish mortgage market in recent years. Commercial banks (e.g., Unibank and Den Danske Bank) have established mortgage banks, and mortgage banks have started or acquired commercial banks. As a result, competition has increased significantly.

Mortgage Banks	**Mortgage Debt (end 1998) DKK million**
Nykredit	365.1
Realkredit Danmark	316.6

BRF Kredit	116.5
Unikredit	70.1
Danske Kredit	59.8
Totalkredit (end 1997)	57.8

Source: Nykredit

Danish mortgage banks grant loans for residential, agricultural and commercial purposes. The maximum maturity for mortgage loans on residential and commercial properties is 30 years. Mortgage banks can lend up to 80 percent of the value of residential property and up to 60% of the value of industrial property with a maximum LTV of:

Loan Purpose	
Commercial	10%
Agriculture	12%
Rental Housing	20%
Owner-occupied dwellings	56%
Other	2%

Source: Nykredit

Almost all Danish mortgage loans are made on an annuity (level payment) basis. There are also some serial (equal principal payments) or bullet loans. The rate of interest is typically fixed for the life of the loan at a rate determined by prevailing market conditions at the time of issue of the backing mortgage bond. Mortgages can be bond loans in which the principal corresponds to the volume of bonds the mortgage bank sells or cash loans where the principal matches the market value of the issued bonds. In the former, the borrower will not know the loan proceeds until the time of disbursement. In the latter, the loan proceeds are known, but the rate of interest and the actual monthly payments are not known until the bonds are sold. Any capital loss arising on the sale of the bonds is converted into tax-deductible interest for cash but not bond loans. With a bond loan, however, the borrower has an option to sell bonds at market value in order to prepay the loan (as opposed to paying off at par value with the cash loan).

Fixed rate mortgage loans are fully prepayable at the option of the borrower with notice of at least 2 months before a repayment date (loans are typically paid quarterly). Variable-interest and index-linked loans are non-callable. The volume of variable rate loans (in which the rate adjusts every 1 to 10 years) has increased significantly. Danish mortgage banks have also started to offer mortgage loans in Euro and with interest rate caps. The spread between mortgage and government bonds primarily reflects the value of the borrower prepayment option. The mortgage banks add a 50-100 basis point spread to the mortgage bond yield to cover administrative costs and credit risk.

Interest Rates			**Mortgage Rates**		**Govt Bond Yields**
Year	Money Market i.e. interbank	Deposit	Fixed (#yrs.)	Variable	Long-Term
1990	10.97%	7.93%	11.20%	11.2%	10.74%
1991	9.78%	7.15%	9.80%	9.8%	9.59%

1992	11.35%	7.50%	10.10%	10.3%	9.47%
1993	11.49%	6.52%	7.10%	7.2%	7.08%
1994	6.30%	3.53%	9.70%	9.5%	7.41%
1995	6.19%	3.85%	8.40%	8.0%	7.58%
1996	3.98%	2.80%	7.50%	8.0%	6.04%
1997	3.71%	2.65%	7.10%	7.2%	5.08%
1998	4.27%	3.08%	6.04%	N/A.	4.59%
1999	3.37%		6.98%	N/A.	4.30%

Source: EMF, IMF

The funding of the mortgage banks takes place through the issue of mortgage bonds. The rate of interest is fixed on the Copenhagen Stock Exchange on a daily basis. The mortgage bank funds a loan through issuance of a bond into an outstanding series. The Danish bond market is one of the largest in Europe, totaling nearly 100% of GDP of which mortgage bonds account for 60%. The yield spread between mortgage and government bonds narrowed from more than 200 basis points at the beginning of 1999 to 140 basis points at the end of the year. The spread is primarily determined by borrower prepayment behavior.

Mortgage Bonds (million DKK)

Year	Issued	Outstanding
1991	94,504	790,302
1992	88,655	792,900
1993	233,798	936,703
1994	282,202	861,503
1995	149,997	904,298
1996	227,899	945,399
1997	255,303	1,016,823
1998	421,199	1,098,002
1999	395,403	1,139,703

Source: EMF

The majority of mortgage bonds are held by financial institutions, insurance corporations, pension funds and the public sector. Insurance companies and pension funds hold 34%, financial institutions hold 27% and foreign investors hold 9%. As of June 1999, mortgage bonds became eligible collateral for loans from the Central Bank, thereby increasing their liquidity.

In Denmark, a strong, legal environment supporting collateralized lending exists. Mortgage banks focus primarily on property valuation in their underwriting. Thanks to a favorable economic environment, the number of registered, enforced sales was the lowest in the 1990s (2,400 in total). The number of actual foreclosures is significantly lower, with only 132 in 1998 and 107 in 1999.

Policy Developments

The 1998 "Whitsun" tax package had a discernable impact in 1999. The legislation reduced the rate at which interest payments on private debt are deductible from income for tax purposes from around 46% to 40%, increasing the after-tax costs of mortgage finance. In addition, the growth in property valuations increased the tax burden associated with the "rental value" of an owner-occupied home.

A Bill has been introduced concerning increased supervision of banking groups and a loosening of the matching principle laid down in the Mortgage Credit Act. The matching principle regulates the mortgage bank's interest rate and liquidity risk. The principle will be made more flexible so that mortgage banks may pool loans into larger issues and adjust the characteristics of the bonds to the wishes of investors. This will facilitate greater product innovation.

Sources and References

1. European Mortgage Federation, Mortgage and Property Markets in 1999, Brussels 2000 www.hypo.org
2. European Mortgage Federation, Hypostat 1988-1998, Brussels 1999
3. Reakkreditrådet, Annual Report 1999: Summary
4. Morgan Stanley Dean Witter, Inside the Global Economy, May 2000. www.msdw.com
5. Nykredit, Danish Mortgage Bonds, 1999 www.nykredit.dk
6. Urskov, E., "An Overview of the Danish Mortgage Market", presentation at the Pan-European Mortgage Market 2000 Conference, Barcelona, September 2000.
7. Credit Suisse First Boston, "Euro-11 Special: Housing Matters", Economics Research April 2000 www.csfb.com

Contacts

1. Realkreditrådet
   Zieglers Gaard
   Nybrogade 12
   1203 København K
   Tel: 3312 4811
   http://www.realkreditraadet.dk/

2. Nykredit A/SOtto Mønsteds Plads 9
   1780 København V.
   Tel. 33 77 20 00
   Fax. 33 77 21 20
   http://www.nykredit.dk/

Finland

Economic Background

				Markkaa	US$
Year	Exchange Rate Markkaa/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Billions)	Nominal GDP (Billions)
1990	3.82	89.81	6.10%	521.02	136.39
1991	4.04	93.51	4.12%	498.07	123.28
1992	4.48	95.94	2.60%	487.19	108.75
1993	5.71	97.96	2.11%	493.06	86.35
1994	5.22	99.02	1.08%	521.44	99.89
1995	4.37	100.00	0.99%	561.39	128.46
1996	4.59	100.62	0.62%	587.55	128.01
1997	5.19	101.82	1.19%	632.88	121.94
1998	5.34	103.24	1.39%	686.01	128.47
1999E		104.44	1.16%	710,020	

Source: IMF, Bank of Finland

Since recovering from a steep recession at the beginning of the 1990s, Finland has enjoyed robust economic growth. In the period between 1994-1998, GDP growth averaged 4.6% per year, which was noticeably faster than the Euro average. Growth continued in 1999, albeit at a slower pace than in the past few years. Preliminary estimates suggest that the economy grew at 3.5% in 1999, compared to 5% in 1998. Inflation was reduced to the low 1% range. Inflation increased towards the end of 1999, mainly because of higher oil prices and exceeded the Euroland average. Employment continued to grow and unemployment fell. Structural unemployment remained high, however. The seasonably adjusted unemployment rate was 6.7% at year-end. The structure of exports became more diversified and price competitiveness remained good. As traditional sectors were hit by the weakness of export demand, the growth of industrial production rested entirely on continued strong growth of the electronics and telecommunications sector.

Housing Markets

At the end of 1997, there were some 2,448 million dwellings in the Republic of Finland. Of this total, some 44% represent accommodation in blocks of flats, and 41% represents one-family houses. The owner-occupancy rate was 67% (1997). The rental stock was split between social rental (17%) and non-social (13% -- a portion of which receives interest subsidies). The population in 1997 was 5.117 million.

Year	Housing Starts	Housing Completions	Permits Issued	Transactions Involving Dwellings	Construction Cost Index*	All Dwellings*
1992	31,606	31,606	33,416	67,994	100	90
1993	27,434	30,412	29,145	75,175	101	65
1994	26,820	26,731	24,417	71,088	102	69
1995	18,310	25,031	19,289	68,200	103	67
1996	23,564	20,837	25,708	83,300	103	70

1997	29,804	26,854	32,750	81,400	105	82
1998	31,597	29,842	33,947		108	91
1999	34,980	27,760	37,928		110	106

Source: EMF

The fall in interest rates boosted private consumption and investment. Housing prices rose in response to lower interest rates, strong income expectations, a substantial increase in equity wealth and internal migration. The typical price for a 150m2 and 100m2 flat at the end of 1999 was 130,000 Euro. Although there was a marked increase in housing investment, it was not enough to eliminate the imbalance between supply and demand in growth centers. According to Statistics Finland, prices of existing flats in the country as a whole grew by 10.6% in the last quarter of 1999. Only one period in the last 30 years (1988-1991) have real house prices been higher than they were in 1999.

Mortgage Markets

As a result of low interest rates and strong housing demand, the stock of housing loans grew considerably in 1999. The stock of housing loans grew by 15.8% and new housing loans reached a record level. The average interest rate on new loans fell by 0.7% in the first half of the year, but rates climbed back to the level prevailing at the start of the year during the second half.

The majority of housing finance in Finland is provided by the main commercial, co-operative and savings banks. Their share of outstanding loans as at Q3 1998 accounted for 63% of the total market, which includes both owner occupied property loans and rental property loans. This share increases to nearly 85% for loans to households. Major lenders include MeritaNordbanken, Leonia Bank, OKOBANK and OKO Mortgage Bank, Suomen Hypoteekkiyhdistys and the Housing Fund of Finland.

Central Government funds account directly for some 21% of outstanding loans and indirectly, through funds advanced via municipalities for about a further 8%. Insurance institutions provide around 4%, with the remaining 3% being provided by other specialized financial institutions such as the Mortgage Society of Finland and Municipal Housing Finance Limited.

Residential Mortgage Market (Markkaa million**)**

Year	Outstanding Mortgage Debt/GDP	Mortgage Debt Outstanding	New Originations Net	New Originations Gross
1991	32.0%	174,401	8,000	35,602
1992	33.9%	178,744	4,348	29,798
1993	38.1%	177,338	(1,481)	30,628
1994	37.2%	180,077	1,751	29,742
1995	32.4%	177,211	(1,813)	27,155
1996	31.0%	178,309	1,095	33,261
1997	29.5%	186,763	8,454	39,384
1998	30.3%	200,758	13,990	53,856

Source: EMF

Interest rates in 1999 fell to historically low levels. Banks make both fixed and variable rate loans. Variable rate loans are now indexed to Euribor. Fixed interest loans are available for periods of 3 and 5 years. After a period of fixed interest, the interest of the loan will be changed to Merita prime rate + a margin agreed upon at the beginning of the loan term. After the period of fixed interest, the customer can also agree upon a new period of fixed interest and agree upon possible changes to the repayment plan at the same time.

Interest Rates

Year	Money Market i.e. Interbank	Deposit	Mortgage rate*	Long-Term Govt bond Yield
1990	14.00%	7.50%	14.00%	
1991	13.08%	7.50%	14.00%	
1992	13.25%	7.50%	14.20%	
1993	7.77%	4.75%	11.20%	8.84%
1994	5.35%	3.27%	9.80%	9.03%
1995	5.75%	3.19%	8.20%	8.78%
1996	3.63%	2.35%	6.10%	N/A
1997	3.23%	2.00%	6.00%	N/A
1998	3.57%	N/A	5.20%	N/A
1999	2.97%	1.22%	4.80%	4.72%

Average rate offered by individual banks; Source: IMF, EMF

Mortgage bond issuance has declined substantially since 1990. The total outstanding is now less than Euro 1 billion. A new Mortgage Bond Act took effect in January 2000. The Act regulates both mortgage banks and mortgage bonds and protects the name "mortgage bond". Structure of mortgage bonds will largely follow the German Pfandbrief model.

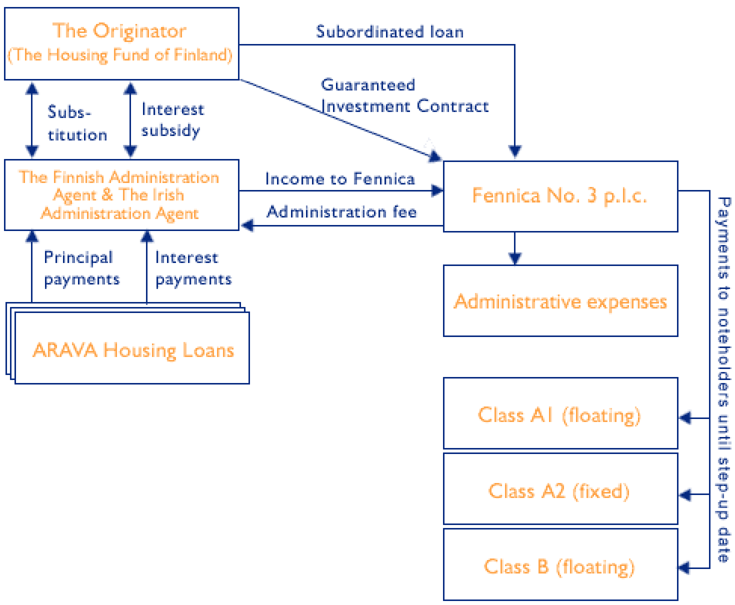
Mortgage Bonds (Millions of FM)

Year	Issued	Outstanding
1991	4,494	20,583
1992	1,612	19,446
1993	1,093	18,011
1994	1,529	16,274
1995	710	13,043
1996	1,474	9,900
1997	2,088	7,652
1998	1,052	6,915

Source: EMF

Policy Developments

The Housing Fund of Finland (ARA) is a government agency operating under the Ministry of the Environment, which manages operations related to state-subsidized lending for housing, interest-subsidized lending and renovation subsidies. The Housing fund obtains funds from the state budget, interest payments and installments on old housing loans, loans from the capital market and securitization of state-subsidized housing (ARAVA) loans. ARA is the major issuer of MBS. The Fund has issued 4 large offshore blocks of securities (the Fennica program). This innovative program was the first securitization of social housing loans in Europe. The first issue was for $364 million in 1995. Subsequently, ARA has issued FM 1.5 billion in September 1996, FM 2.05 billion in September 1998 and Euro 500 million in September 1999. The SPV is located in Ireland, which is characterized as a "securitization-friendly, tax efficient jurisdiction". Although the loans are subsidized, investors receive a market rate of interest determined as a margin over LIBOR (issue 1) or HELIBOR (converted to Euribor) in issues 2 and 3. The structure of a typical transaction is shown in Figure 1.



A new law governing mortgage banking entered into force at the beginning of 2000. The law covers mortgage banking activities conducted by special credit institutions that have the exclusive right to finance their operations by the issuance to the general public of bonds backed by real estate or government entities. The activities of mortgage banks were restricted to the granting of loans secured by shares of housing or real estate companies, occupancy rights or real estate mortgages. Loans can also be granted to government entities.

Sources and References

1. Bank of Finland http://www.bof.fi
2. Housing Fund of Finland http://www.vyh.fi/ara/ara.htm
3. Statistics Finland
4. Ijäs, T. and H. Hiltunen, "Securitizing Funds For Social Housing", Hosing Finance International, 13, 2, December 1998
5. IMF: International Financial Statistics, 2000

6. European Mortgage Federation, Mortgage and Property Markets in 1999, Brussels 2000 www.hypo.org
7. European Mortgage Federation, Hypostat 1988-1998, Brussels 1999
8. Credit Suisse First Boston, “Euro-11 Special: Housing Matters”, Economics Research April 2000 www.csfb.com

Contacts

1. ARA The Housing Fund of Finland
   PO Box 100
   FIN 00521 Helsinki
   Tel: 358.0.148.881
   Fax: 358.0.148.2582

2. Finnish Mortgage Association
   Suomen Hypoteekkiyhdistys
   Yrjönkatu 9 A
   PL 509
   00101 HELSINKI
   Tel: (09) 228 361
   Fax: (09) 647 443
   Email hypo@hypoteekkiyhdistys.fi

France

Economic Background

Year	Exchange Rate Francs/US$	Consumer Price Index	Change In Consumer Prices	Francs Nominal GDP (Millions)	US$ Nominal GDP (Millions)
1990	5.45	89.58	3.38	6,509,500	1,194,404
1991	5.64	92.47	3.23%	6,776,200	1,201,454
1992	5.29	94.65	2.36%	6,999,060	1,323,074
1993	5.66	96.65	2.11%	7,077,100	1,250,371
1994	5.55	98.25	1.66%	7,389,700	1,331,477
1995	4.99	100.00	1.78%	7,752,400	1,553,587
1996	5.12	102.01	2.01%	7,951,400	1,553,008
1997	5.84	103.23	1.20%	8,224,900	1,408,373
1998	5.90	103.93	0.68%	8,564,700	1,451,644
1999	6.51	104.48	0.53%	8,813,076	1,353,775

Source: IMF, Morgan Stanley

France has the 4th largest world economy with a 1999 growth rate of 2.9%. The economy has performed well in recent years, and the forecast for 2000 was growth in the 3.5-4.0 percent range. At 0.5% in 1999, French inflation was the lowest of the six largest Euroland countries. The French government has progressed in deregulating product and labor markets. Unemployment was high at 11 percent, but it is forecasted to fall in coming years. Per capita income in 1997 was $21,169. A controversial new policy came into effect in 2000 --- the 35 hour (instead of 39 hour) workweek for companies employing more than 20 people. This policy may undermine French competitiveness and cap potential growth.

Housing Market

Year	Housing Starts	Permits Issued	Transactions Involving Dwellings	Construction Cost Index*
1992	277,000	340,700	605,800	106
1993	256,500	325,700	584,500	107
1994	302,200	360,500	670,000	107
1995	285,900	311,800	683,000	107
1996	273,800	306,800	694,500	110
1997	253,900	273,600	669,000	112
1998	278,200	355,600		112
1999	309,700	327,500		113

*1990=100; Source: EMF

There were 28,945,000 dwelling units in France with a 1997 homeownership rate of 54%. The population was 58,723,000. 1999 was a favorable year for the property markets with the level of new construction at the highest in the past 10 years. The pick-up reflects the gradually improving economy, low interest rates and fiscal incentives. The number of building permits fell; however, as a tax assistance scheme for new rental property expired in August, 1999. The market for existing dwellings benefited from a reduction in transfer taxes and VAT. The number of real estate transactions was relatively low reflecting high transaction costs. The total number of transactions has increased over the past 2 years to a level of approximately 800,000. Transaction costs were lowered from 7.35% to 6.25% of the transaction price for existing properties in September 1999 and from 7.35% to 1.95% for new properties.

House prices fell for 7 consecutive years but reversed the trend in 1998. Parisian house prices increased 3.7% in 1998, and they were forecasted to increase 5% in 1999. The typical price for a 150m2 and 100m2 flat at the end of 1999 was 138,000 Euro. There were 640,000 transactions in 1999 up 3.8% from the prior year. The percentage of disposable income spent on housing has risen from 18.9% in 1990 to 22.5% in 1997.

Mortgage Market

France has the third largest mortgage market in Europe, with outstanding balances of $271 billion at the end of 1999. Despite its relative affluence, France has a relatively small mortgage market accounting for only 20% of GDP, reflecting a legacy of high interest rates, previously nationalized banks and subsidies. The role of the state has declined sharply over the past decade. State regulated loans accounted for 50% of new lending in 1990 and less than 20% in 1999. Over the past 2 years the market has been enjoying moderate growth, reflecting low interest rates (refinancing), relatively high rates of new construction, and an increased interest in housing, as investment alternatives have given low savings rates. Refinance slowed as interest rates began to rise.

Year	Outstanding Mortgage Debt/GDP	Mortgage Debt Outstanding Mil FF	New Originations Net (mil FF)	New Originations Gross (mil FF)
1992	23.0%	1,606,654	N/A	184,895
1993	21.7%	1,529,674	N/A	183,558
1994	21.1%	1,554,354	34,420	192,393
1995	20.9%	1,593,781	22,155	182,593
1996	20.4%	1,596,929	38,479	204,065
1997	20.4%	1,658,846	44,988	222,929
1998	20.0%	1,709,510	50,000	235,019
1999*	20.0%	1,765,512	56,003	260,019

*Provisional estimate; Source: EMF

The French mortgage market is dominated by retail funded depository institutions. French banks are well capitalized and enjoy a relatively low retail cost of funds, in part due to a ban on payment of interest on current accounts, and their domination in attracting contract savings accounts.

The French mortgage market shares are divided (in 1998) between commercial banks (33%), mutual and cooperative banks (mainly Crédit Agricole and Crédit Mutuel -–34%), the Caisse d'Epargne Group (savings banks) (13%), Crédit Foncier (12%) and specialized (wholesale-funded) institutions (8%). A victim of the property crisis of the early 1990s and weakened by the loss in 1995 of the monopoly of the distribution of state-subsidized loans for home ownership, the Crédit Foncier was sold to the Caisse d'Epargne in 1999. Wholesale lenders depending on non-retail funds including Union De Credit Pour Le Batiment (UCB – part of the Bank Paribas and now Banque National de Paris group) and Bank Henin have lost market share in the 1990s.

French banks price mortgages quite aggressively, and they use them as relationship products to obtain long term customers to whom they cross-market other financial products. Margins on residential mortgages are thus quite low (around 1% in 1999).

One reason banks can afford to be aggressive on residential mortgages is their dominance in the provision of contract savings. The PEL (Plan E'pargne Logement) is a contract wherein the saver saves a certain sum over a period of time (minimum 4 years) and is eligible for a loan upon completing the contract. The rates on savings are set by the government, typically at a level that equates the after-tax yield on PEL and market savings accounts. The government provides a bonus upon completion of the contract. The loan must be for housing purpose, and the rate is set at a fixed spread over the savings rate. The lender offering the program can use the excess funds (Treasury) for loans for housing purposes (broadly defined). Thus, the PEL provides the lender with a pool of below-market rate funds that it can use to subsidize housing loans. 8.5% of lending in 1998 was in the form of PEL loans, down from 16% in 1997 and reflecting the falling interest rate environment.

Interest Rates

				Mortgage Rates	Gov't Bond Yields
Year	Money Market i.e. Interbank	Deposit	Fixed	Variable	Long-Term
1990	9.85%	4.50%	11.00%	10.9%	9.96%
1991	9.49%	4.50%	11.20%	11.1%	9.05%
1992	10.35%	4.50%	10.80%	10.7%	8.60%
1993	8.75%	4.50%	8.80%	8.6%	6.91%
1994	5.69%	4.56%	8.90%	8.7%	7.35%
1995	6.35%	4.50%	8.60%	8.5%	7.59%
1996	3.73%	3.67%	7.40%	7.3%	6.39%
1997	3.24%	3.50%	6.70%	6.5%	5.63%
1998	3.39%	3.21%	5.80%	5.9%	4.69%
1999	3.50%		5.60%		5.30%

Source: EMF, IMF

The standard mortgage product is a 15-20 year fixed rate, amortizing mortgage, accounting for approximately 80% of all mortgage loans. Variable rate loans (VRMs) represent 80% of the loans distributed by specialized institutions, and only 20% of those are from the banking sector. VRMs are indexed, typically to Euribor, and often feature payment caps and/or the possibility to shift to a fixed rate at no cost. Several lenders introduced 30-year mortgage loans and flexible payment loans in 1999.

There are three major types of mortgage loans in France, the free market (prêt eligible), regulated (prêt conventionné, or PC) and PAS (prêt d'accession Sociale). Rates on free market loans are set by the market. The terms of PC loans are regulated by the government and are typically 10-20 basis points less than market-rate loans. They are provided to preferred customers. Free market and PC loans accounted for 63% of the market in 1998.

The PAS was introduced in 1993. Under this program, the government provides guarantees for loans to marginal borrowers. The bank pays a fee for this insurance, which is a function of the performance of its PAS loan portfolio. Subsidized loans to boost homeownership (PAP), that were previously distributed by Crédit Foncier de France and the credit immobilier companies, have been replaced by the zero rate loan that can be granted by all financial institutions. This change has contributed to a shift in the market share of different lenders towards banks and away from specialized institutions. Loan programs, geared toward the "semi-social" rental sector and managed by public housing bodies or private investors, are also available. Government subsidized loans accounted for 22.5% of lending in 1998.

The credit position of the mortgage lender in France is not as strong as in many other developed countries. The foreclosure process is both time consuming (at least 30 months from initial delinquency to final disposal of the collateral) and costly (due to the delay and high transaction cost foreclosure losses can often account for a majority of the total loan amount by the time of disposition). As a result, lenders are conservative with 70% maximum LTV in many cases.

Mortgage registration is costly in France (1 to 2 percent of the loan balance). The mortgage security is being replaced, to an increasing extent, by a personal surety (a guarantee given by specific financial institutions, such as Crédit Logement, for loans to private individuals) or by a financial guarantee, such as a stock portfolio. Whereas 10 years ago, only the mortgage security existed in practice. Today, it covers about ¾ of loans to private individuals.

The vast majority of funding is through retail deposits and PEL accounts. Wholesale funds are available through the Eurobond market, bonds issued by Caisse Refinancement Hypothecaire (CRH – a centralized bond issuer) and starting in 1999 issuance of mortgage bonds patterned after the German Pfandbriefe. CRH issued unsecured debt in the French markets and provided collateralized loans to its owner institutions (banks). Issuance of CRH bonds has been declining in recent years, reflecting the attractiveness of retail versus wholesale funds for banks.

The new law governing the issuance of secured bonds, the Obligations Foncières, provides a vehicle for individual institutions to issue mortgage bonds. The new law provides for the creation of a new type of financial institution, the Société de Crédit Foncier, whose sole purpose is the refinancing of specific eligible assets through the issuance of Obligations Foncières, as well as through to a lesser extent. Other types of resources provide for a preference on the company's assets linked to the bonds. The companies can be subsidiaries of banks and other financial institutions. The companies are separately capitalized, but they can be operated, virtually, with management by the sponsoring institution. The collateral for the bonds is subject to strict rules including a maximum of 60% loan-to-value ratio and oversight by a trustee.

Mortgage Bonds (mil FF)

Year	Issued	Outstanding
1997	1,996	290,899
1998	13,999	272,148
1999	38,704	231,017

Mortgage-Backed Securities (mil FF)

Year	Issued	Outstanding
1997	14,483	28,932
1998	16,702	44,772
1999	22,789	67,502

Source: EMF

A securitization framework exists, and it has been used by a number of lenders for one-off transactions. The French securitization structure differs from that in the UK and the US. An issuer will sell loans to a "Fonds Commun de Créances" or FCC. To finance the acquisition of the loans, the FCC issues shares that represent ownership rights to the assets. FCC's are akin to mutual funds, and they are a relatively flexible structure. The main issuers of MBS in France have been Crédit Foncier, Crédit Lyonnais and Union de Crédit pour le Batiment (UCB).

Policy Developments

The protection of borrowers against over-indebtedness is regulated by the NEIERTZ Act of 1989. This act provides that ad hoc committees, overseen by the Banque de France, can ask lending institutions to restructure the debt of over-indebted households. In 1998, the act was reinforced with protective provisions for low-income borrowers. In 1999, the new law on "financial security" modified the Scrievner Law. It dictates that the maximum, early repayment penalty is equal to 6 months of interest with a limit of 3% of the outstanding penalty by banning the imposition of the penalty when a sale is imposed by an external event (death, job transfer etc.).

The right of the lender to collect an indemnity in the event of early repayment has been abolished in the following 3 cases: when the early repayment is linked to the sale of the property for reasons of job mobility, or to the death of the borrower or of his/her spouse, or should the borrower or his/her spouse lose his/her job.

Sources and References

1. European Mortgage Federation, Mortgage and Property Markets in 1999, Brussels 2000

2. European Mortgage Federation, Hypostat 1988-1998, Brussels 1999
3. INSEE 1998
4. IMF: International Financial Statistics, 2000
5. Taffin, C., Credit Foncier de France “Epargne-Logement” in France, Housing Finance International, December 1998
6. Taffin, C., Credit Foncier de France, “Housing Credit in France: Main Aspects and Recent Changes”, December 1998
7. Taffin, C., The Rebirth of the Land Credit Companies”, Housing Finance International, June 2000
8. Selectaux.com, “French Mortgage Market Overview”, presentation at the Pan-European Mortgage Market 2000 Conference, Barcelona, September 2000.
9. Credit Suisse First Boston, “Euro-11 Special: Housing Matters”, Economics Research April 2000 www.csfb.com

Contacts

1. Credit Foncier de France
   19 rue des Capucines
   75050 Paris Cedex 01
   Tel: 01.42.44.80.00
   Fax: 01.42.44.86.99
   http://www.creditfoncier.fr/

Germany

Economic Background

				DM	US$
Year	Exchange Rate DM/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	1.6200	85.73	2.70%	2,429,400	1,499,630
1991	1.6600	87.10	1.59%	2,936,870	1,769,199
1992	1.5600	91.50	5.06%	3,153,500	2,021,474
1993	1.6500	95.58	4.46%	3,234,740	1,960,448
1994	1.6200	98.19	2.73%	3,394,320	2,095,259
1995	1.4300	100.00	1.84%	3,520,520	2,461,902
1996	1.5000	101.49	1.49%	3,584,620	2,389,747
1997	1.7300	103.27	1.75%	3,667,230	2,119,786
1998	1.7600	104.26	0.96%	3,784,370	2,150,210
1999	1.9500	104.96	0.67%	3,841,136	1,969,813

Source: IMF, Morgan Stanley

The German economy grew slowly during the mid- to late 1990s. Led by exports, the economy began to pick up in 1999. As the recovery started to spill over into domestic demand, real growth was expected to improve upon the 1.5% growth rate of 1999. Consumption was likely to increase due to a combination of rising real disposable income, falling unemployment and lower income and payroll tax. Investment spending was forecasted to increase significantly, benefiting from a strong improvement in the business climate, rising capacity utilization and only a moderate increase in unit labor costs. Inflation was forecasted to rise to approximately 1.4% for the year 2000, primarily reflecting higher oil prices. Wage growth was forecasted to remain relatively moderate, and combined with on-going deregulation and increasing competition in the retail sector, it was expected to moderate the inflation. The unemployment rate has fallen slightly to approximately 8.5%, but high structural unemployment remains a concern.

Housing Market

Over the past 19 years, the trend in building activity in Germany has been subject to substantial fluctuation as indicated by the evolution of building permits. Several factors account for the variation, including the trend in household net income, increased immigration into Germany and German reunification. These factors led to a high demand for accommodation with spillover effects on both new construction and redevelopment in the early 1990s.

The number of building permits issued and the demand for housing finance loans fell during 1999, despite historically low mortgage interest rates and relatively low prices in the construction and property markets. State support for the construction and purchase of residential property has drastically decreased in past years. In addition, a stagnant economy has reduced demand.

Germany is a densely populated country with approximately 82,037,000 inhabitants and approximately 35 million households. The share of owner-occupied housing units in Germany was about 40 percent. The remaining households are tenants and sub-tenants. In 1998, about 98% of approximately 37 million housing units were located in residential buildings and approximately 2% were in other buildings with housing space.

House Price Index

Year	Housing Completions	Permits Issued	Transactions Involving Dwellings	Construction Cost Index 1991=100	All Transactions 1990=100
1992	386,089	484,404	612,500	100	115
1993	455,500	606,686	754,300	106	123
1994	573,859	712,798	662,200	112	136
1995	603,035	639,100	619,500	114	133
1996	560,613	576,378	600,000	117	133
1997	570,596	530,263	570,000	117	133
1998	500,718	477,707	595,000	116	137
1999	472,805	437,584	580,000	116	140

Source: EMF

The relatively low homeownership rate reflected strong preferences for rental housing in certain geographic areas, high average house prices, and a tax system that was biased more towards rental investment than homeownership (e.g., mortgage interest on owner-occupied homes is not a deductible expense). Homeownership rates are considerably lower in the former East Germany (approximately 25%). The median house price as of 1997 was approximately DM400,000, and the ratio of median house price to median annual after-tax income was around 6 (empirica).

Mortgage Market

The mortgage market in Germany is the largest market in Europe, with DM 2.18 trillion ($1.12 trillion) in outstanding residential mortgage loans at the end of 1999. While the homeownership ratio of 40% is relatively low, the stock of mortgage debt outstanding was large in 1999(57 % of GDP) reflecting the high average price of owner-occupied housing.

		DM million		
Year	Outstanding Mortgage Debt/GDP	Mortgage Debt Outstanding	New Originations Net	New Originations Gross
1991	40.4%	1,143,450	48,771	116,931
1992	41.0%	1,220,525	58,341	75,377
1993	42.6%	1,348,560	99,799	129,370
1994	45.0%	1,484,458	118,695	135,899
1995	45.9%	1,601,151	105,615	116,694
1996	48.3%	1,743,131	116,888	141,981

1997	50.9%	1,863,158	118,043	120,073
1998	52.4%	1,981,252	118,048	124,234
1999	57.0%	2,188,155	110,798	134,839

*includes housing loans not secured by mortgage

The origination volume in 1998 was DM 134 billion ($69 billion), a relatively low percentage of the outstanding balance reflecting a low mobility rate, late age for first time home purchase (around 40 years of age) and the absence of financially motivated prepayment (which is precluded by contract for loans with rates fixed for more than one year). The lack of early prepayment is evident in the small difference between gross and net new lending. Germany experienced a decrease in net lending in 1999, reflecting a relatively weak economy and reduced incentives for construction.

Market Share by Lender Type 1998

Current Year	Debt Outstanding
Comm Banks*	16%
Savings Banks	32%
Mortgage Banks	15%
Co-op Banks	12%
Bausparkassen	11%
Insurance Companies	8%
Other**	6%

Source: DePfa
*Includes mixed mortgage/commercial banks[8]
**Includes foreign banks, private banks, banks with special functions

The German banking sector and housing finance market are characterized by a three-tier structure: private, public and co-operative lender groups. Within each group there may be several different types of lenders, including specialized mortgage bank subsidiaries or Bausparkassen. The main mortgage lending groups and the approximate 1999 origination market share are: the Hypovereinsbank Group (7.6%), Schwäbisch Hall Group (7,1%), BHW Group (6.6%), Wustenröt Group (6.5%) and Deutsche Bank Group (3%). Overall public savings banks and Girozentralen have the largest market share of 32%. Over the past 2 decades, mortgage banks (primarily public mortgage banks) and Bausparkassen have lost market share to saving, cooperatives and especially commercial banks.

Distinctions between the groups of institutions arise from the nature and extent of their mortgage lending and more importantly, the nature of the funds used for financing the housing loan. Both the mortgage banks (*Hypothekenbanken*) and contract savings

[8] The market share includes two "mixed" mortgage banks, including the Hypovereinsbank which is the largest lender in Germany. Mixed mortgage banks can raise funds through both deposits and mortgage bonds. The other 26 mortgage banks are "pure" meaning that they can only raise funds on the wholesale markets.

institutions (*Bausparkassen*) are defined by an exclusive right to offer particular financing instruments. The mortgage banks normally grant mortgage loans for 25-30 years, generally, with an initial period of fixed interest of 5-10 years. The mortgage banks fund themselves primarily with collateralized mortgage bonds (*Pfandbriefe*), which are subject to specific and restrictive requirements (e.g., collateralized by mortgages with a maximum LTV of 60%).

The *Bausparkassen* offer loan-linked savings programs. Approximately ½ of German households have one or more Bauspar contracts. A saver signs a contract to save a certain sum (typically 10-15% of the expected house price) over a period of time (5-7 years), after which he/she is entitled to a loan in a matching amount. The savings and loan rates are fixed and typically below market. The loans are available for maturities between 7 and 18 years. The system represents a "closed" system where loans and savings interest rates are independent of the market rate. The *Bausparkassen* rely almost entirely on contract savings plans for funds; hence, they must ration the new loans in accordance with available funds from new savers. Individual *Bausparkasse* offer a limited amount of bridge loans at market rates of interest that are prepaid when the borrower becomes eligible for the contract loan. The government provides a grant, equal to 10% of the annual savings (up to a limit of approximately $550 per year).

Savings banks offer both reviewable rate loans and loans with short term fixed rates (typically up to 5 years). They receive funds from deposits and loans from Landesbanken. The co-operative banking system also has a liquidity facility (the DG Bank) and its own mortgage banks and Bausparkassen.

An important aspect of German residential mortgage finance is the package character of mortgage lending. The typical financial structure for a first time buyer encompasses a first mortgage (60-70%), a *Bauspar* loan of approx. 20%, and often a personal loan. As a result of the packaged nature of lending, borrowers often obtain loans from three different lenders, e.g., a mortgage bank, a *Bausparkasse* and a universal bank. Institutions within different groups will offer housing finance packages from a single source.

There is a relatively low level of product variation in Germany, reflecting in part the refinancing constraints of the specialized lenders. Traditionally, German borrowers have favored long-term, fixed-interest rate mortgages. There are few long-term fixed rate loans in the U.S. sense of the word. Although all loans with rates that are fixed for more than one year are referred to as fixed interest mortgages, the longest period, during which the rate is fixed, is 10 years. Technically, German fixed-interest mortgages are renegotiable-rate mortgages, amortizing over 25-30 year terms, with rates fixed from one to ten years (similar to the Canadian roll-over mortgage).[9] There are also variable-rate mortgages, mainly offered by the savings banks. These loans are adjustable at the discretion of the lender (like the UK standard variable rate mortgage). Average interest rates (end of 1998)

[9] *Most mortgages are annuity contracts with the principal repayment beginning at 1%.*

were 5.3% for 10 year fixed interest loans and 5.8% for variable rate loans. Rates rose by approximately 100 basis points in 1999.

Interest Rates

			Mortgage Rates		
Year	Money Market i.e. interbank	Deposit	Variable	Fixed (10 yrs.)	Long-Term Gov't Bond Yields
1990	7.92%	7.07%	9.90%	9.90%	8.88%
1991	8.84%	7.62%	10.20%	9.50%	8.63%
1992	9.42%	8.01%	9.70%	8.60%	7.96%
1993	7.49%	6.27%	7.80%	7.30%	6.28%
1994	5.35%	4.47%	8.10%	8.80%	6.67%
1995	4.50%	3.85%	6.90%	7.50%	6.50%
1996	3.27%	2.83%	6.40%	7.10%	5.63%
1997	3.18%	2.69%	6.30%	6.70%	5.08%
1998	3.41%	2.88%	5.80%	5.29%	4.39%
1999	2.73%	2.43%		6.40%	3.80%

Source: IMF, EMF

The Pfandbrief market is the largest segment of the German bond market, but it is also the largest non-government bond market in Europe. A strict regulatory framework secures the highest standards of asset quality.

The Pfandbrief market, with a total outstanding of DM 1.7 trillion, make up the largest portion of the German bond market, even bigger than the Bunds and other paper of public-sector issuers. In the European market, only the volume of the Italian government bond market was greater. In terms of volume the Pfandbrief market has 42.6% share of the market. A segment of the Pfandbrief market is the Jumbo Pfandbrief, which is gaining importance. Jumbos are issues with principal of DM 1 billion and more in straight bond format with tight bid/offer spreads and a very active market.

Pfandbrief bonds are secured by first-ranking mortgages or land charges (mortgage Pfandbrief) or loans in the public sector (public Pfandbrief). Over 70% of outstanding Pfandbriefe are public. These bonds may only be issued by private mortgage banks, ship mortgage banks or a few public-sector issuers. These products must meet all legal provisions applicable to the individual issuer group. This means that these bonds are standardized on a legal basis and with high, safety standards.

The vast majority of Pfandbriefe outstanding carry a fixed coupon and are non-callable. Interest is usually paid annually, and maturities range from one to ten years. The majority of the Pfandbriefe are three, five and ten maturity.

Mortgage Bonds

Year	Issued	Outstanding
1991	25,808	238,675

1992	42,835	254,631
1993	68,320	285,986
1994	72,826	321,666
1995	72,202	354,310
1996	70,660	381,237
1997	82,198	410,251
1998	97,792	443,205
1999	91,093	461,179

*Mortgage and ship {Pfandbriefe: Sources: EMF

There have been a couple of mortgage-backed securities issues in Germany, including the GEMs transaction by Rheinhyp in 1995 and the HAUS transaction by Deutsche Bank in 1998. Both transactions were the sale of primarily second lien, residential mortgages (specifically a securitization of the above 60% LTV portion of mortgage loans funded by Pfandbriefe).

Policy Developments

The legislation governing the Bausparkassen has been amended to allow the Bausparkassen to participate in cross-border business in all European Member States of the OECD.

Under the Single-family Home Assistance program, conditions governing the awarding of the single-family home bonus has changed as of January 2000, the income thresholds are being reduced by one-third; however, an additional flat rate for children is being introduced.

The Mortgage Bond Act has been modified so that public bearer debentures may be brought in as a basis for the issuing of public mortgage bonds. The issuing of jumbo mortgage bonds has been simplified, and business opportunities have been opened up with a few neighboring eastern European states.

Since January 1996, every first-time buyer of a new dwelling is entitled to a constant annual buydown that is paid over the first eight years. At present, it is 5.000 DM plus child allowance of 500 DM per child (up to 1,500 DM). For purchase of existing dwellings or shares in housing cooperatives, the base rate is half (2,500 DM). Also, tax deductibility of up-front costs has been cut to a maximum of 3,500 DM.

Sources and References

1. Empirica, “The Residential Mortgage Market in Germany - Market Structure and Procedures”, Bonn 1997
2. European Mortgage Federation, Mortgage and Property Markets in 1999, Brussels 2000
3. European Mortgage Federation, Hypostat 1988-1998, Brussels 1999
4. IMF: International Financial Statistics, 2000
5. Deutsche Bundesbank, Monthly Reports, various issues

6. Verband der Privaten Bausparkassen, Annual Report 1999
7. Verband deutscher Hypothekenbanken, Annual Report 1999
8. Arndt, Franz-Josef, “The German Pfandbrief and its Issuers”, Housing Finance International, March 1999
9. Merrill Lynch, “European MBS: The Case of Germany”, September 1999
10. Fitch ICBA, “German Pfandbriefe and Analogous Funding Instruments Elsewhere in Europe – particularly France and Spain”, May 2000
11. DePfa Hypotheken Management, “Trends in German Residential Mortgage Markets”, presentation at the Pan-European Mortgage Market 2000 Conference, Barcelona, September 2000.

Contacts

1. Association of Private Bausparkassen, (Verband der Privaten Bausparkassen e.V.)
   Klingelhöfer Str. 4
   10785 Berlin
   Tel: 030 / 590091-500
   Fax: 030 / 590091-501
   Email: bausparkassen@vdpb.de
   http://www.bausparkassen.de

2. Association of German Mortgage Banks (Verband deutscher Hypothekenbanken e.V)
   Lützowufer 26
   10787 Berlin
   Tel: 0049-30-269940-0
   Fax: 0049-30-269940-29
   http:// www.pfandbrief.org

Greece

Economic Background

				Drachmas	US$
Year	Exchange Rate Drachmas/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	157.63	52.25	20.4	13,143,100	83,379
1991	175.28	62.43	19.5	16,230,500	92,598
1992	214.58	72.33	15.9	18,766,100	87,455
1993	249.22	82.76	14.4	21,135,700	84,807
1994	240.10	91.80	10.9	23,983,600	99,890
1995	237.04	100.00	8.9	27,235,200	114,897
1996	247.02	108.20	8.2	29,935,100	121,185
1997	282.61	114.19	5.5	33,021,800	116,846
1998	282.57	119.63	4.8	35,910,600	127,086
1999	328.44	122.78	2.6		-

Source: IMF

The economy grew 3.5% in 1999, despite the adverse impact the war in Kosovo had on tourism in Greece. The key drivers of economic growth were public investment and improving business and consumer confidence induced by EMU convergence. The Greek government has applied for EMU entry in January 2001. Real GDP growth is likely to accelerate in 2000. Short-term interest rates are likely to fall sharply as the country completes its economic convergence towards the Euro zone. Inflation fell sharply during the 1990s, but it is likely to increase somewhat in 2000 reflecting the strong economy.

Housing Market

There were 4,800,000 housing units in Greece in 1991. The country has one of the highest homeownership rates in Europe at 78% owner-occupied. The population was 10.5 million (1997). Construction activity has been stable but with increasing demand due to robust growth and declining interest rates. Both house prices and construction costs have been rising.

Year	Permits Issued	Transactions Involving Dwellings*	Construction Cost Index 1990=100
1992	71,445	59,887	133
1993	66,061	61,421	150
1994	64,635	65,984	163
1995	60,448	67,159	175
1996	68,093	68,675	187
1997	69,867	100,228	198
1998	71,790		211
1999e	65,500		

Source: EMF; *Includes transfers of flats

Mortgage Market

The upward trend in the Greek economy since 1996, combined with the lowering of interest rates in 1997 and 1998, has led to a significant expansion in both consumer and mortgage lending. Net lending grew by 44% in 1999, and the ratio of mortgage debt to GDP, the lowest in the EU, grew from 6.2 to 8%. This trend is likely to continue in 2000 and beyond.

Residential Mortgage Market (GDM)

Year	Outstanding Mortgage Debt/GDP	Mortgage Debt Outstanding	New Originations Net	New Originations Gross	Number of New Loans
1991	4.6%	1,033,062	101,183	51,216	10,000
1992	4.3%	1,029,939	96,186	57,774	10,473
1993	4.2%	1,043,680	80,571	51,840	9,594
1994	4.2%	1,077,407	96,186	64,332	12,053
1995	4.5%	1,223,872	199,242	69,017	11,988
1996	5.2%	1,571,453	347,269	114,923	16,383
1997	5.8%	1,924,343	370,066	138,033	16,843
1998	6.2%	2,208,841	386,617		20,436

1999	8.0%	2,760,661	555,880		20,266

EMF members only. includes residential loans not secured by mortgage; Source: EMF

There has been gradual erosion in the share of traditional, state-owned mortgage banks and an increase in the share of commercial banks during the 1990s. The most important factor in this trend was the emergence of the National Bank of Greece (NBG) as the major player in the mortgage market, following its merger with the National Mortgage Bank of Greece in late 1998. The NBG has a market share of approximately 40%. The NBG has taken over all of the functions of the NMBG, including the granting of government subsidized housing loans, which constitute a diminishing but still significant portion of the mortgage market. The 1998 market shares are 67% commercial banks, 2.2% private mortgage banks, 30.8% other specialized lenders including state-controlled institutions such as the Postal Savings Bank, the Deposits and Loans Fund and the Agricultural Bank of Greece.

The most common mortgage product has a 15-year maturity. In the past few years, greater variety has been introduced into the markets, with maturities varying from 3 to 25 years. Mortgage interest rates fell into single digits for the first time in 1998.

Interest Rates			**Mortgage Rates**	
Year	Treasury Bill	Deposit	Fixed (15yrs.)	Variable
1990	18.50%	19.52%	24.00%	
1991	18.79%	20.67%	25.00%	25.50%
1992	17.69%	19.92%	25.00%	25.50%
1993	18.23%	19.33%	24.00%	23.50%
1994	N/A	18.92%	23.00%	23.00%
1995	N/A	15.75%	17.00%	17.50%
1996	11.92%	13.51%	15.50%	17.00%
1997	N/A	10.11%	11.30%	15.30%
1998	N/A	10.70%	9.80%	13.75%
1999	N/A	8.68%		11.75%

Source: EMF, IMF

Loans are funded by deposits in Greece, as there is neither a mortgage bond nor an MBS market. There is an unfavorable tax regime for corporate bonds (20% tax on interest), compared to Greek government bonds (10% tax rate on interest). High interest rates that prevailed during the 1990s were also a disincentive to long term bond finance. With the expected convergence of interest rates with the Euro-zone in 2000, banks may begin issuing mortgage bonds and/or MBS.

Policy Developments

Consumer protection legislation, covering disclosure of data and transparency in loan contract terms and conditions, was introduced and expected to pass in 1999. Recently, the institution of a banking ombudsman was introduced. A National Land Registry was created in the late 1990s that will enhance the prospects of market development.

Sources and References

1. European Mortgage Federation, Mortgage and Property Markets in 1999, Brussels 2000
2. European Mortgage Federation, Hypostat 1988-1998, Brussels 1999
3. IMF: International Financial Statistics, 2000
4. Morgan Stanley Dean Witter, Inside the Global Economy, May 2000. www.msdw.com

Contacts

1. National Bank of Greece S.A.
   Strategic Planning and Research Division
   86 Eolou Str.
   102 32 Athens, Greece.
   Tel: 3341521
   Fax: 3251133
   http://www.ethniki.gr/

Ireland

Economic Background

Year	Exchange Rate Irish £/US$	Consumer Price Index	Change In Consumer Prices	Irish £ Nominal GDP (Millions)	US$ Nominal GDP (Millions)
1990	0.60	88.32	3.27%	28,524	47,540
1991	0.62	91.14	3.19%	29,584	47,716
1992	0.59	93.99	3.12%	31,406	53,231
1993	0.68	95.31	1.41%	33,912	49,871
1994	0.67	97.55	2.35%	36,479	54,446
1995	0.62	100.00	2.51%	41,028	66,174
1996	0.63	101.69	1.69%	45,210	71,762
1997	0.66	103.16	1.44%	51,822	78,518
1998	0.70	105.66	2.43%	59,637	85,196
1999*	0.93	107.39	1.64%	65,242	79,563

Source: IMF, *World Factbook

Financial economists have dubbed the Irish economy, "The Celtic Tiger," with real GDP growth rates of 6 to 10% and inflation at less than 3% during the second half of the 1990s. Ireland ended the decade with 9.4% real GDP growth in 1999, by far the highest growth rate in Europe. Inflation rose to a European high of 2.5%. Labor shortages, rising wages and infrastructure bottlenecks will act to slow growth, but a tightening of monetary policy by the ECB will not stop the inflation rate from rising. The unemployment rate, which was as high as 12% in 1996, fell below 5% at the beginning of 2000.

Housing Market

Ireland has 1,115,000 dwelling units and an 80% homeownership rate. This is the highest in Europe. The Irish population, which dipped below 3 million in the 1950s and 60s, is on the rise. It is estimated to reach 3.8 million in 2000. Culturally, homeownership is a very strong motivation supported by government and a legacy of prior periods of history. Currently reflecting the low, Euro zone interest rates, demand in the housing market is outstripping supply, particularly in the Dublin area where most of the population is concentrated. As a result, house prices have increased at an annual rate in excess of 15% over the past 3 years and over 20% the last two years. The government has intervened in the market to dampen demand, to increase the supply of housing, and to increase regulation of banks to ensure that lending criteria are maintained.

Year	Housing Completions	Permits Issued	Transactions Involving Dwellings	Construction Cost Index*	New House Price Index*
1992	22,464	9,156	44,433	106	105
1993	21,391	8,801	45,390	108	106
1994	26,863	9,920	50,204	112	111
1995	30,575	10,928	49,288	116	118
1996	33,725	12,016	61,006	118	133
1997	38,842	13,729	64,652	122	154

1998	42,349	16,719	68,925	125	190

*1990=100; New House Price index for transactions with mortgage loans; Source: EMF

The surge in economic growth has had a dramatic effect on house prices, with new and second hand house prices rising at an astonishing rate. The figures for new house prices from 1993 to 1998 are reflected as follows:

New House Prices IEP

Year	Whole Country	Dublin
1993	50,000	59,500
1996	68,600	76,400
1997	79,600	94,400
1998 (Q3)	97,600	127,000

Source: Byrne, Department of the Environment

New house prices, nationally, have increased by 95%, and Dublin house prices are up by 113% in the same period. Since 1993, second hand house prices in Dublin have increased by 144% as against 100% nationally.

Second Hand House Prices IEP

Year	Whole Country	Dublin
1993	52,600	60,500
1996	67,400	82,200
1997	80,276	102,400
1998 (Q3)	110,300	147,600

Source: Byrne, Department of the Environment

There are a number of reasons for this dramatic rate of increase. Land supply constraints have been the main driving force behind house price increases. The level of demand has been further fuelled by the fact that Ireland has been experiencing net immigration over the past few years, with large numbers of highly qualified, young people returning to well paid positions in software, telecommunications and call center industries.

A further contributing factor has been the huge increase in the level of properties being purchased for investment rather than for owner occupation. Lower interest rates, spiraling property prices and generous tax concessions have made residential investment extremely attractive. It is estimated that 80% of new apartments in the Dublin area are purchased by investors.

The Irish government had become increasingly concerned at the overheating of the market. They commissioned one of Ireland's leading financial economists, Dr. Peter Bacon, to prepare a report on housing prices. This was produced in April, and action was taken by the government, resulting in the following:

a) A reduction in tax incentives for private investors
b) A reduction in government tax on house prices
c) Land rezoning incentives
d) Increased funding for site development

The effect of such measures has been slight in the short term, but it is expected that in the longer term they should dampen the overheating which has been experienced.

Mortgage Market

Mortgage demand in the past few years has been strong, with gross advances rising between 20 an 30 percent per year and net advances rising by 30 to 40 percent per year. As a result, the mortgage debt outstanding grew relative to the economy with mortgage debt-to-GDP at 27.6% by the end of 1998. The volume of gross new lending for housing in 1999 was up 68% and 83% for net lending.

Until the mid-1980s, the market was dominated by the Building Societies, which had up to 75% market share and the banks having less than 10%. In the mid-eighties, the banks moved aggressively into the market, and they have been there ever since. The lines of demarcation between banks and Building Societies have become blurred. Most institutions are perceived as being "mortgage lenders." In 1980, there were 14 mutual Building Societies, but by the end of 1998, this number was reduced to two. This sharp reduction has come about through mergers and a number of conversions to bank (plc) charters.

Mortgage lending is thus dominated by retail depository institutions (associated banks and building societies) with a market share of 91% of outstanding mortgage loans at the end of 1996. Conversions and mergers have significantly cut the building society share of the market. The main lenders operating in the market are Irish Permanent, First National Building Society, Allied Irish Bank, EBS Building Society and Bank of Ireland. Bank of Scotland, a UK bank, has recently entered the market using direct (phone and Internet) distribution.

		Millions IEP			
Year	Outstanding Mortgage Debt/GDP	Mortgage Debt Outstanding	New Originations Net	New Originations Gross	Number of New Mortgage Loans
1992	21.6%	6,450	739	1,379	
1993	22.3%	7,285	814	1,343	
1994	23.0%	8,272	1,006	1,630	
1995	23.3%	9,300	1,091	1,780	
1996	25.8%	10,754	1,529	2,339	
1997	26.0%	13,362	2,212	2,822	57,901
1998	27.6%	16,439	2,907	3,611	61,407
1999			5,325	6,066	

Source: EMF, Walsh (1999)

The typical mortgage loan maturity is 20 years. Lenders offer both reviewable rate and fixed rate mortgages, but fixed rate loans tend to be fixed for a period of time shorter than the life of the loan. Recently, longer maturity loans, flexible mortgages and split-term, fixed-rate loans have been introduced. Loan interest rates are fueling demand. Until recently, lenders earned healthy margins, as deposit rates are relatively quite low. Strong competition is also leading to more, aggressive underwriting. The average loan size increased sharply with average, new loans at IEP 88,500 and existing loans at IEP 94,800 at the end of 1999.

Interest Rates

Year	Money Market Interbank	Deposit	Mortgage Rates	Long-term Govt Bond Yields
1992	15.12%	5.42%	14.00%	9.11%
1993	10.49%	2.27%	7.70%	7.72%
1994	5.75%	0.33%	7.20%	8.19%
1995	5.45%	0.44%	7.50%	8.30%
1996	5.74%	0.29%	7.10%	7.48%
1997	6.43%	0.46%	7.50%	6.49%
1998	3.23%	0.43%	6.00%	4.99%
1999	3.14%		4.38%	

Source: EMF, IMF

The vast majority of mortgage lending is funded through retail deposits. There is increasing competition for retail savings, which has put upward pressure on savings rates. Savings rates have been extraordinarily low since the mid-1990s. Securitization was introduced in 1996, and it has grown in importance. In 1999, MBS accounted for approximately 20% of net mortgage lending. The introduction of mortgage bonds is under discussion.

Mortgage Backed Securities (Millions IEP)

Year	Issued	Outstanding
1996	200	200
1997	-	192
1998	400	585
1999*	1065	

Source: EMF, *Simpson

Sources and References

1. European Central Bank, Annual Report 1999 http://www.ecb.int
2. European Mortgage Federation, Mortgage and Property Markets in 1999, Brussels 2000 www.hypo.org
3. European Mortgage Federation, Hypostat 1988-1998, Brussels 1999
4. IMF: International Financial Statistics, 2000
5. Byrne, D. "Ireland: Housing and Mortgage Markets and the Single Currency", Housing Finance International, March 1999
6. Walsh, M., "Ireland: Boom and Bubble", presentation at the Pan-European Mortgage Market 2000 Conference, Barcelona, September 2000.
7. Simpson, J., "European Securitization", presentation at the Pan-European Mortgage Market 2000 Conference, Barcelona, September 2000.

Contacts

1. Irish Mortgage and Savings Association
   Heritage House
   23 St. Stephen's Green
   Dublin 2.
   Ireland
   Tel: 353.1.676.6333
   Fax: 353.1.661.8622
   Email: mortgage@indigo.ie

Italy

Economic Background

				Lire	US$
Year	Exchange Rate Lire/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	1,130	78.27	6.50	1,310,660,000	1,159,722
1991	1,151	83.20	6.30	1,427,570,000	1,240,222
1992	1,471	87.43	5.08	1,502,490,000	1,021,504
1993	1,704	91.34	4.48	1,550,300,000	909,816
1994	1,630	95.02	4.03	1,638,670,000	1,005,479
1995	1,585	100.00	5.24	1,772,250,000	1,118,336
1996	1,531	103.97	3.97	1,872,630,000	1,223,485
1997	1,759	106.09	2.04	1,950,680,000	1,108,851
1998	1,653	108.17	1.96	2,034,560,000	1,230,754
1999	1,926	109.96	1.66	2,063,043,840	1,071,155

Source: IMF, Morgan Stanley, Economist

GDP growth in 1999 was weak (1.4%), and Italy continued to under-perform the Euroland average (by 0.8 percentage points). This continued the trend throughout the 1990s. However, there are signs of improvement. In the second half of 1999, Italy grew at an annualized rate of 3%, and early 2000 data suggested a continued recovery. Exports are leading the recovery, growing at a 15% annualized rate since the second quarter of 1999. Investment climate was also favorable; however, private consumption remains weak. Inflation has been declining steadily during the decade but has also begun to creep up, driven mainly by the increase in oil prices. Italy has substantially liberalized portions of the economy, such as telecoms and utilities. In addition, wage demands remain moderate, reflecting the Social Pact agreed to at the end of 1998. This agreement, between the government, business and unions, states that Euroland inflation will be the benchmark for future wage agreements. Unemployment remains high at 11.4%, but it was forecasted to fall to the 10.5% range in 2000.

Housing Market

There were 26,300,000 dwelling units (1995) in Italy, with a home ownership rate of 78%. The population was 57.5 million (1997). The housing market has been relatively stagnant in recent years, reflecting the slow growth in the economy as a whole. In 1998, the number of transactions was the highest since 1991. The housing market began to recover in 1999, reflecting low interest rates, a fiscal incentive for new construction and first time buyer demand. The typical price for a 150m2 and 100m2 flat at the end of 1999 was 127,000 Euro.

Year	Housing Starts	Housing Completions	Permits Issued	Transactions Involving Dwellings	House Price Index All Dwelling Units
1992	211,526	277,627	48,734	465,373	100

1993	188,595	282,087	43,458	501,891	112
1994	176,664	259,252	44,141	495,178	119
1995			41,828	502,500	120
1996				483,800	116
1997	155,626		34,910	523,600	118
1998				567,340	118

Source: EMF

Mortgage Market

Italy has the seventh largest mortgage market in Europe, with an outstanding balance of $94 billion at the end of 1999 third quarter. Italy's mortgage market is particularly small, relative to the size of its economy with a mortgage debt to GDP ratio of only 9%. The small size reflects a legacy of high interest rates, weak legal status of the mortgage, non-consumer-oriented banks and a strong savings tradition.

Italy's mortgage market registered strong growth in 1998 (in excess of 17%), and 1999 was a continuation of this pattern. The historically low interest rates are a major factor in this growth. In addition, commercial banks have "rediscovered" mortgages, and in 1998 they launched strong advertising campaigns and fierce price competition. Mortgage debt outstanding has grown by more than 14% per year over the past 2 years. As a result, the mortgage debt-to-GDP ratio, the lowest in Europe outside of Greece, has increased from 7 to 9 percent.

Year	Outstanding Mortgage Debt/GDP	Mortgage Debt Outstanding Mil L	New Originations Net Mil L	New Originations Gross Mil L
1991	5.4%	76,762,662	11,189,731	
1992	5.3%	78,600,897	10,667,866	
1993	6.1%	94,406,150	8,158,465	
1994	6.1%	99,769,172	5,672,770	
1995	7.6%	135,227,991	-	
1996	7.5%	140,231,127	6,422,217	33,296,030
1997	7.3%	144,363,654	8,303,327	40,387,784
1998	8.1%	164,536,399	18,645,722	51,402,561
1999*	9.0%	188,136,562	29,823,826	55,758,348

*end of 3rd quarter; Source: EMF - -

The legal and regulatory system may be a deterrent to rapid expansion. Foreclosure can take 5-7 years if contested by the borrower. However, a new law comes into force in 2000 that can accelerate the legal process (maximum 2 years) by reducing the number of steps. The maximum LTV for bank mortgages is 80%, and only purchase mortgages receive a 50% risk weight (refinanced loans have a 100% risk weight).

Like most European countries, Italy is heavily over-banked (970 banks with over 24,000 outlets) and dominated by retail-funded depositories. The top five mortgage lenders are estimated to have a combined market share of 45%. Until the end of 1993, only specialized institutions were allowed to make long term loans. This restriction was dropped, and most specialized institutions have been merged into commercial and savings banks. Until 1998, mortgage lending was not a priority area for most banks.

The typical maturity of a mortgage loan is 10-15 years, and the average LTV for residential mortgage loans is 50%. Lenders offer both fixed and variable rate loans. Variable rate loans are tied to a reference rate published by the Bank of Italy. Fixed rate mortgage rates rose to 6.1% by the end of 1999.

Interest Rates			Mortgage Rates		Gov't Bond Yields
Year	Money Market ie Interbank	Deposit	Fixed (#yrs.)	Variable	Long-Term Govt Bond Yield
1990	12.38%	6.80%	14.90%	14.70%	11.51%
1991	12.21%	6.64%	14.40%	13.50%	13.18%
1992	14.02%	7.11%	15.80%	18.00%	13.27%
1993	10.20%	7.79%	11.30%	11.30%	11.31%
1994	8.51%	6.21%	11.10%	11.20%	10.56%
1995	10.46%	6.45%	12.80%	11.60%	12.21%
1996	8.82%	6.49%	9.10%	9.40%	9.40%
1997	6.88%	4.83%	7.20%	7.90%	6.86%
1998	4.99%	3.16%	5.50%		4.90%
1999	2.95%	1.61%	6.10%		

Source: EMF, IMF

Loans are funded primarily with retail deposits in Italy. The Bank of Italy has rules on asset-liability matching for banks that constrain the fixed rate lending by lenders with a large proportion of assets in mortgages. A securitization law was passed in April 1999, and it is expected to be a competitive source of finance.

All mortgages in Italy are funded by deposits. Legislation passed in April 1999 introduced regulations for securitization and a framework for structures such as special purpose vehicles. The largest European ABS transaction in 1999 was a $4.7 billion transaction launched by INPS, the main Italian Social Security institution. The collateral consists of contributions due to INPS in arrears.

Policy Developments

A law adopted in July 1999 requires loan contracts to stipulate the method of calculating prepayment penalties. Tax deductibility has been extended to interest paid on re-negotiated, (refinanced) first mortgage loans.

Sources and References

1. European Mortgage Federation, Mortgage and Property Markets in 1999, Brussels 2000 www.hypo.org
2. European Mortgage Federation, Hypostat 1988-1998, Brussels 1999
3. IMF: International Financial Statistics, 2000

4. Moodys Structured Finance: 1999 Year in Review and 2000 Outlook, February 2000 www.moodys.com
5. Morgan Stanley Dean Witter, Inside the Global Economy, May 2000. www.msdw.com
6. Credit Suisse First Boston, "Euro-11 Special: Housing Matters", Economics Research April 2000 www.csfb.com

Contacts

1. Associazione Bancaria Italiana ABI
   Piazza del Gesù, 49
   00186 Roma (Italy)
   Tel: +39-06-67671
   Fax: +39-06-6767457
   Email: abi@abi.it

Luxembourg

Economic Background

				Francs	US$
Year	Exchange Rate currency/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Billions)	Nominal GDP (Millions)
1990	33.42	87.14	3.70%	359.02	10.74
1991	34.15	89.85	3.12%	389.92	11.42
1992	33.18	92.69	3.15%	417.79	12.59
1993	36.11	96.00	3.58%	456.80	12.65
1994	31.84	98.12	2.20%	498.59	15.66
1995	29.42	100.00	1.92%	518.80	17.63
1996	32.01	101.39	1.39%	546.30	17.07
1997	36.92	102.78	1.37%	587.04	15.90
1998	34.57	103.77	0.96%	631.06	18.25
1999		104.81	1.00%		

Source: IMF

Luxembourg has a stable, high-income economy that features moderate growth, low inflation, and low unemployment. The industrial sector, until recently dominated by steel, has become increasingly more diversified to include chemicals, rubber, and other products. During the past decades, growth in the financial sector has more than compensated for the decline in steel. Services, especially banking, account for a growing proportion of the economy. Luxembourg has especially close trade and financial ties to Belgium and the Netherlands, and as a member of the EU, Luxembourg enjoys the advantages of the open European market.

Housing Market

There were 145,000 dwelling units in Luxembourg, 72% of which are owner-occupied. The population was 424,000 (1997).

Year	Permits Issued	Transactions Involving Dwellings	Construction Cost Index*
1992	4,316	3,667	112
1993	4,022	3,030	114
1994	2,744		115
1995	2,797		117
1996	3,411		118
1997			122
1998			125

1990=100; Source EMF

Mortgage Market

Millions Francs

Year	Mortgage Debt Outstanding	New Originations Net	New Originations Gross	Outstanding Mortgage Debt/GDP
1991			1,058	
1992			1,088	
1993			990	
1994	123,335	-	41,961	25.7%
1995	134,605	10,903	44,273	26.2%
1996	137,917	3,288	46,908	25.7%
1997	147,364	9,457	50,956	26.0%

Source: EMF

Approximately 80% of mortgage credit is supplied to private households by universal banks. The main lender in Luxembourg is a public bank, the "Banque et Caisse d'Epargne de l'Etat", which has an approximate market share of 60%. Private, commercial banks, cooperative banks and pension funds share the remaining market. Loans are funded by deposits.

The vast majority of mortgage loans in Luxembourg are variable interest rate loans. Stable, long-term rates encouraged increased issuance of fixed rate mortgages in recent years. There is a growing demand for loans with 5 to 10 year fixed interest periods. Prepayment penalties exist between interest adjustment periods.

Interest Rates			Mortgage Rates		Gov't Bond Yields
Year	Money Market i.e. Interbank	Deposit	Fixed (#yrs.)	Variable	Long-Term
1990	9.67%	6.00%	9.50%	8.30%	8.51%
1991	9.10%	6.00%	9.50%	8.30%	8.15%
1992	8.93%	6.00%	9.50%	8.30%	7.90%
1993	8.09%	5.33%	9.50%	7.00%	6.93%
1994	5.16%	5.00%	7.50%	6.50%	6.38%
1995	4.26%	5.00%	7.00%	6.50%	6.05%
1996	3.29%	3.54%	7.00%	6.50%	5.21%
1997	3.36%	3.46%	6.00%	5.50%	5.39%
1998	3.48%	3.31%	6.00%	5.50%	5.29%
1999	N/A	N/A	N/A	N/A	N/A

Source: EMF, IMF

Sources and References

1. European Mortgage Federation, Mortgage and Property Markets in 1999, Brussels 2000
2. European Mortgage Federation, Hypostat 1988-1998, Brussels 1999
3. CIA, The World Factbook 2000

4. IMF: International Financial Statistics, 2000

Netherlands

Economic Background

Year	Exchange Rate NLG/US$	Consumer Price Index	Change In Consumer Prices	NLG Nominal GDP (Millions)	US$ Nominal GDP (Millions)
1992	1.81	93.99	3.18%	566,100	312,762
1993	1.94	95.31	2.58%	579,040	291,804
1994	1.74	98.11	2.80%	608,420	332,782
1995	1.60	100.00	1.92%	634,740	380,263
1996	1.74	102.02	2.02%	661,830	364,793
1997	2.02	104.22	2.16%	703,390	327,639
1998	1.89	106.28	1.98%	750,550	372,164
1999	2.19	108.63	2.21%	777,570	342,717

Source: IMF, Economist, Morgan Stanley

The Netherlands has been the strongest growing economy in Euroland in recent years. GDP grew at 3.6-3.7% in 1998, and 1999 showed no signs of abating. Stronger export growth was expected to make up for slightly slower domestic demand growth. Consumer spending growth, which outpaced disposable income growth for some years, should cool down in 2000 as should wealth effects from soaring stock and housing markets diminish. The economy is in some danger of overheating. Unemployment remains below 3% and the number of job vacancies is rising above the number of unemployment. Inflation was quite low during the 1990s. Upward pressure on wages, along with a projected increase in VAT and energy taxes, is likely to push inflation above 3%. The hot property market is another source of inflationary pressure.

Housing Market

There were 6,388,000 dwelling units in the Netherlands of which 52% were owner-occupied (1999). The population was 15.5 million. Holland is the most densely populated country in the world except for Hong Kong, and most journeys take less than two hours by car. This reduces the effect of changes in local, economic conditions on borrowers, as they can move jobs without having to move homes. The owner-occupied share, while traditionally low, has been rising as a result of government policy and rising prices. The increase in home ownership has been driven by the Dutch government, which has provided state guarantees for low-income homeowners, and they have allowed interest payable on mortgages to be tax deductible.

Both the high level of demand for owner-occupied housing and limited production of new dwellings because of the scarcity of suitable building sites, have contributed to extraordinary rates of house price inflation over the past 4 years. Housing starts declined by 19% from their decade high in 1994. However, housing transactions were up 30 percent or more from their mid-1990s levels. The increase in house prices is expected to moderate, however (down to single digit increases). The typical price for a 150m2 and 100m2 flat at the end of 1999 was 172,000 Euro.

Year	Housing Starts	Housing Completions	Permits Issued	Transactions Involving Dwellings	House Price Index New*	House Price Index Existing*
1992	85,100	86,200	87,000	245,300	108	112
1993	86,000	83,689	89,500	198,000	111	122
1994	102,929	87,369	107,764	215,000	113	131
1995	95,918	93,836	98,405	225,000	118	137
1996	95,817	88,934	102,119	260,000	122	151
1997	98,002	92,315	101,501	281,000	125	163
1998	85,871	90,516	87,673	280,000	129	181
1999	83,400	78,625	84,201	292,000	133	216

1990=100; Source: Hypostat

Mortgage Market

The Dutch mortgage market is the fourth largest in Europe with approximately $245 billion outstanding at the end of 1999. However, in terms of new originations, it is the second largest, with gross advances of $88 billion in 1999, a growth of 28%. Growth in recent years has been fueled by a combination of low interest rates, rising house prices (fueling an investment demand for housing) and a generous tax treatment of homeownership (full deductibility of mortgage interest and introduction of tax advantaged endowment and investment-linked mortgages). The mortgage debt-to-GDP ratio is now the highest in the EU at 74%.

Year	Outstanding Mortgage Debt/GDP	Mortgage Debt Outstanding (NLG mil)	New Originations Net (NLG mil)	New Originations Gross (NLG mil)
1991	41.1%	222,781	13,811	35,957
1992	43.2%	244,034	15,329	43,221
1993	45.4%	263,533	26,010	54,979
1994	48.0%	293,776	29,176	72,784
1995	50.3%	317,940	30,514	65,391
1996	54.2%	356,514	44,443	91,177
1997	60.1%	420,759	56,298	118,208
1998	69.6%	489,592	60,444	155,553
1999	73.9%	561,800	73,540	201,236

Source: Hypostat

The Dutch mortgage market is highly concentrated, and it is dominated by retail-funded depository institutions, which accounted for 85% of the outstanding residential loans. The remaining 15% of the market are funded by insurance companies and pension funds. At the end of 1998, the approximate market shares of major lenders were Rabobank 23%, Abn-Amro 17%, and ING 16% (including Postbank). Bouwfonds is the largest developer of owner-occupied houses in the Netherlands. One of the activities of Bouwfonds concerns the origination and servicing of mortgage loans. Their mortgage origination and servicing subsidiary is Stater, which services the Bouwfonds loans and sub-services approximately 25% of the Dutch market. In late 1999, Abn-Amro announced that it was purchasing Bouwfonds. Also picking up share of the Dutch market is The Bank of Scotland, which has started an Internet lending business, Eubos, in the Netherlands.

The standard mortgage instrument in the Netherlands is a renegotiable rate instrument. This instrument amortizes over a 25-30 year period with periodic rate adjustments (e.g., 1-10 years). During the period the rate is fixed, early repayment is subject to a prepayment penalty, but the borrower can refinance without penalty at the end of the fixed rate period. Because of the low level of interest rates (5.5% at the end of 1999), longer fixed rate periods up to or in excess of 10 years are in demand. Until 1995, the annuity mortgage loan was the most popular. Since 1995, the endowment or pension mortgage (non-amortizing mortgage with repayment from proceeds of an insurance policy) has become the most popular, reflecting a favorable fiscal treatment. Recently there has been a proliferation of investment-based mortgages. Rates for 5-year re-negotiable rate loans reached a decade low of 4.4% in mid-1999 before increasing to 5.5% by the end of the year.

Interest Rates

			Mortgage Rates		
Year	Money Market i.e. Interbank	Deposit	Fixed (#yrs.)	Variable	Long-term Govt Bond Yield
1990	N/A	3.31%	9.80%	9.60%	10.08%
1991	N/A	3.18%	9.70%	9.50%	9.17%
1992	N/A	3.20%	8.70%	8.50%	9.11%
1993	N/A	3.11%	6.90%	6.70%	7.72%
1994	5.75%	4.70%	8.20%	8.00%	8.19%
1995	5.45%	4.40%	6.50%	6.30%	8.30%
1996	5.74%	3.54%	6.00%	5.80%	7.48%
1997	N/A	3.18%	6.20%	6.00%	6.49%
1998	3.07%	3.10%	6.00%	N/A	4.99%
1999	3.21%	2.74%	5.50%	N/A	4.92%

Source: EMF, IMF

Mortgage funding in the Netherlands is mainly by deposits. As mortgage banks have been subsumed into commercial banks, the issuance of mortgage bonds has ceased. MBS issuance started in 1996 with an issuance by Fortis, and it has continued to grow in importance. Driven by ABN AMROs Euro 2.5 billion issuance, 1999 was the most active in terms of issuance. ABN AMRO is the largest issuer of MBS in the Netherlands.

Mortgage Bonds (mil NLG)

Year	Issued	Outstanding
1997	651	3,588
1998	757	3,445
1999	0	2,600

Mortgage-Backed Securities (mil NLG)

Year	Issued	Outstanding
1997	1,976	1,976
1998	2,016	4,029
1999	5,090	

Source: EMF, Merrill Lynch

Policy Developments

The government of the Netherlands is preparing a tax reform package that will take effect in 2001. The current principle of full deductibility of mortgage interest will be replaced by a system whereby deductibility will be limited to interest on mortgage loans taken out for the purpose of owner-occupation.

Sources and References

1. European Mortgage Federation, Mortgage and Property Markets in 1999, Brussels 2000 www.hypo.org
2. European Mortgage Federation, Hypostat 1988-1998, Brussels 1999
3. IMF: International Financial Statistics, 2000
4. Merrill Lynch, European MBS: The Case of the Netherlands, September 1999 www.ml.com
5. Morgan Stanley Dean Witter, Inside the Global Economy, May 2000. www.msdw.com
6. Sources:Hypostat 1987-1997
7. FitchICBA, "Dutch Default Model", May 1997 www.FitchICBA.com
8. Credit Suisse First Boston, "Euro-11 Special: Housing Matters", Economics Research April 2000 www.csfb.com

Contacts

1. Netherlands Banking Association
   Email: algermeen@nvb.nl

Norway

Economic Background

				Kroner	US$
Year	Exchange Rate currency/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Billions)	Nominal GDP (Billions)
1990	6.26	88.92	4.11%	722.71	115.45
1991	6.48	91.96	3.42%	763.41	117.81
1992	6.21	94.12	2.34%	784.93	126.40
1993	7.09	96.26	2.27%	823.70	116.18
1994	7.06	97.60	1.40%	867.56	122.88
1995	6.34	100.00	2.46%	928.75	146.49
1996	6.45	101.26	1.26%	1020.05	158.15
1997	7.07	103.87	2.58%	1084.79	153.44
1998	7.55	106.22	2.26%	1100.77	145.80
1999	7.80	108.69	2.33%	N/A	N/A

Source: IMF

After 5 years of robust growth, Norway's GDP, roughly 20% of which is oil, gas and shipping production, expanded by a mere 0.9% in 1999. Although the slowdown was broad-based, a sharp contraction in offshore and oil investments was a major drag on demand. Prospects for 2000 look better. Private and public consumption was expected to rise at growth rates of more than 2%. A significant fall in interest rates (a cut of 250 basis points to 5.5%) will help stimulate the economy. Export growth was also forecasted to rise for the year.

Strong growth has been good for the labor market. Unemployment has fallen to 3.2% in both 1998 and 1999. A record number of people in the work force have created a very tight labor market. This situation is expected to be maintained, and it will keep household, financial positions strong. Average wage inflation in 1999 was estimated at 5.1%, a 1.4 percentage point reduction from the previous year. The growth in consumer prices was 2.3% in 1999, the same growth rate as 1998 and close to the average of the 1990s.

Housing Market

There were 1,850,000 dwelling units in Norway, 76% owner-occupied. The population was 4.4 million. Demand in the housing market has been outstripping supply. House prices rose an average 17% on a national basis in 1999. In choice locations prices have risen even more. This trend reflects favorable income and employment growth, and it is expected to continue. The 2ndQ 1999 average price per m2 for all structures was NOK10000. Housing starts have fallen for 3 consecutive years and were 15% below their decade high in 1999.

Year	Housing Starts	Housing Completions	Transactions Involving Dwellings	Construction Cost Index**	Existing House Price Index**
1992	15,600	17,789	70,700	104	95
1993	16,194	15,897	83,800	104	96
1994	21,240	17,836	110,100	107	108
1995	19,721	18,849	110,500	113	117
1996	18,743	17,443	112,400	114	126
1997	21,259	18,416	120,400	117	138
1998	19,646	20,659	113,000	120	150
1999*	18,000	19,000	117,261	123	175

*estimated; ** 1990=100 for construction, 1991=100 for existing house price; Source: EMF

Mortgage Market

There is strong and increasing competition in the residential mortgage market in Norway. From 1998 to 1999 the volume of residential mortgage lending increased by 7.5%. By the end of 1999 37% of all lending in Norway was for residential housing.

There has been considerable structural change in the Norwegian financial market in recent years. Mergers and acquisitions have created financial conglomerates that account for an increasing proportion of the supply of financial services. Notably in 1999, Union Bank of Norway and Gjensidige merged, as did Den Norske Bank and Postbanken. Most of the former, independent mortgage institutions have been bought by banks or transformed into banks. Commercial banks, savings banks and state banks now dominate the market. At the end of 1998, commercial and savings banks granted 37% and 43% of total residential mortgage credit respectively. State banks and mortgage institutions accounted for 14 percent and 2 percent of the volume.

	NOKr millions			US $ millions	
Year	Mortgage Debt Outstanding	New Originations Net	Outstanding Mortgage Debt/GDP	Mortgage Debt Outstanding	New Originations Net
1992	44,999	439	46.1%		
1993	44,691	-94	45.1%		
1994	46,405	1,401	44.8%	386,359	11,664
1995	48,659	2,188	43.4%	404,541	18,191
1996	52,966	2,743	42.7%	426,636	22,095
1997	56,460	3,769	41.9%	457,158	30,518
1998	55,420	3,889	44.7%	491,653	34,501
1999	65,422	4,548		528,381	36,732

Source: EMF

Mortgage lenders offer both fixed-rate and reviewable rate loans. Reviewable rate loans have the dominant market position. Normal loan-to-value ratios for residential properties are 80%, and the typical maturity is 15 to 20 years. Average interest rates for mortgage loans with reviewable interest rates decreased to 7.1% at the end of 1999, compared to 9.5% at the end of 1998. Bank interest margins, measured as the difference between interest rates on lending and deposits, peaked in 1989 at 6.3 percentage points. By the end of the fourth quarter of 1999, the margin had shrunk to 3.2 percentage points. Competitive pressure on margins is expected to continue in the years ahead.

Interest Rates

			Mortgage Rates		Gov't Bond Yields
Year	3-Month Interbank	Deposit	Reviewable rate*	Reviewable rate**	Long-Term
1990	11.54%	9.68%	13.10%	14.30%	10.72%
1991	10.56%	9.60%	13.10%	13.90%	9.87%
1992	11.83%	10.69%	12.50%	13.80%	9.78%
1993	7.27%	5.51%	7.40%	8.60%	6.52%
1994	5.85%	5.21%	8.10%	8.10%	7.13%
1995	5.48%	4.95%	6.70%	7.40%	6.82%
1996	4.90%	4.15%	5.90%	6.20%	5.94%
1997	3.73%	3.63%	5.90%	5.60%	5.13%
1998	5.79%	7.24%	7.50%	9.50%	5.35%
1999	6.87%			7.10%	5.38%

* mortgage institutions rate fixed for 2 years ** commercial and savings banks, loans to the public sector;
Source: EMF

Banks use deposits as their main source of funding. However, growth in lending in recent years has exceeded growth in deposits placing pressure on banks to raise funds in the capital markets. This pressure was at least temporarily alleviated in the second half of 1999. By the end of the year, deposits financed slightly less than 70% of the banks lending. Private mortgage institutions fund themselves mainly on the bond market or receive funding from a mother bank. The state banks borrow directly from the government. Mortgage bond issuance has increased each of the last 2 years.

Mortgage Bonds (Millions of NoKr)

Year	Issued	Outstanding
1994	14,404	51,487
1995	8,879	50,215
1996	6,984	67,275
1997	5,919	70,898
1998	8,117	81,617
1999	11,767	87,985

Source: EMF

Policy Developments

In June 1999, a new Act on financial transactions was adopted to govern relationships between consumers and financial institutions, particularly as relates to provision of information and content of agreements.

Sources and References

1. European Mortgage Federation, Mortgage and Property Markets in 1999, Brussels 2000 www.hypo.org

2. European Mortgage Federation, Hypostat 1988-1998, Brussels 1999
3. IMF: International Financial Statistics, 2000
4. Morgan Stanley Dean Witter, Inside the Global Economy, May 2000. www.msdw.com

Contacts

1. Norwegian Financial Services Association,
   Postal address:
   Postboks 2473 Solli
   0202 Oslo
   Office address:
   Hansteensgt. 2 Oslo
   Tel: + 47 - 23 28 42 00
   Fax: + 47 - 23 28 42 01
   Email: fnh@fnh.no
   http:// www.fnh.no

PORTUGAL

Economic Background

Year	Exchange Rate PE/US$	Consumer Price Index	Change In Consumer Prices	PE Nominal GDP (Millions)	US$ Nominal GDP (Millions)
1990	133.60	70.65	13.37	9,855,100	73,766
1991	134.18	78.67	11.35	11,315,200	84,329
1992	146.76	85.71	8.94	12,759,000	86,938
1993	176.81	91.54	6.80	13,463,100	76,144
1994	159.09	96.04	4.92	14,628,900	91,954
1995	149.41	100.00	4.12	15,817,700	105,868
1996	156.39	103.12	3.12	16,803,600	107,447
1997	183.33	105.35	2.16	17,905,200	97,667
1998	171.83	108.27	2.78	19,245,700	112,004
1999		110.80	2.34		

Source: IMF

The current growth rate of the Portuguese economy is quite strong, driven mainly by export growth. The economy grew 3.5% in 1998, 3.2% in 1999, and growth of 4.2% is forecast in 2000. Domestic demand is showing signs of a slowdown, which will somewhat offset the impact of export demand. Economic growth is creating some inflationary pressure, but the inflation rate was low at 2.4% in 1999. The unemployment rate has been falling, from 6.7% in 1998 to 4.4% in 1999.

Housing Market

There were 4,181,000 dwelling units in Portugal. 66% of these were owner-occupied. The population was 9.96 million (1997). Housing activity picked up in the 1997-99 time period, reflecting the buoyant economy and falling interest rates. Housing starts reached a high for the decade in 1998. Construction costs have been rising sharply in recent years. The typical price for a 150m2 and 100m2 flat at the end of 1999 was 96,000 Euro.

Year	Housing Completions	Permits Issued	Transactions Involving Dwellings	Construction Cost Index	House Price Index – All Dwellings
1992	52,185	35,796	150,182	117	
1993	63,199	36,800	166,030	121	100
1994	59,353	40,927	178,073	129	107
1995	65,304	40,184	186,920	137	110
1996	65,607	40,581	185,980	143	113
1997	78,403	44,200		148	117
1998	84,520	47,988		152	113

Source: EMF

Mortgage Market

The mortgage market in Portugal grew rapidly in the mid- to late 1990s. Mortgage debt outstanding grew by 24%, 27%, 26% and 35% in the years 1995-1998. As a result, mortgage debt-to-GDP, which had been quite low at 13.4% as late as 1993, was a respectable 33% by 1998. Reflecting a strong economy and record low interest rates, continued growth is expected. In 1997 there were 157,300 residential mortgage loans granted.

Residential Mortgage Market

Year	Outstanding Mortgage Debt/GDP	Mortgage Debt Outstanding	New Originations Net	New Originations Gross
1991	11.3%	1,291,402	183,664	170,172
1992	12.1%	1,571,932	213,668	201,935
1993	13.4%	1,886,915	333,657	235,963
1994	16.1%	2,348,945	462,071	355,907
1995	18.8%	2,955,203	606,160	762,069
1996	22.5%	3,735,202	779,920	1,016,539
1997	26.3%	4,729,006	980,680	1,418,783
1998	33.3%	6,403,596	1,674,626	1,925,429

Source: EMF

Universal banks dominate the market. The main lenders are Caixa Geral de Depositos, Credito Predial Portugues, Montepio Geral, Banco Gonsecas & Burnay Sa and Banco International de Credito. With deregulation, liberalization, and internationalization of banking, competition has grown in recent years in both the subsidized and non-subsidized sectors. A majority of the banking groups, which have formed in recent years, include a bank specialized in property finance.

The typical mortgage has a maturity of 15 years and a maximum loan-to-value ratio of 90%. The only instruments offered are variable rates with reference rates varying annually. Mortgage rates reached quite low levels (4.8%) by 1999, and competition was strong.

Interest Rates

			Mortgage Rates	
Year	Money Market i.e. Interbank	Deposit	Variable interest	Long-term Govt. Bond
1990	13.12%	13.99%	20.50%	18.55%
1991	15.50%	14.80%	20.30%	18.27%
1992	17.48%	14.59%	18.40%	15.38%
1993	13.25%	11.06%	14.60%	12.45%
1994	10.62%	8.37%	13.00%	10.83%
1995	8.91%	8.38%	12.40%	10.34%
1996	7.38%	6.32%	11.00%	7.25%
1997	5.78%	4.56%	8.00%	5.48%
1998	4.34%	3.37%	5.70%	4.30%
1999	2.71%	2.41%	4.80%*	5.40%

Source: EMF, IMF * third quarter

Mortgage loans are mostly funded with deposits. There is a small mortgage bond market that saw Euro 49 million issued in 1997 reaching 99 million outstanding. A law passed in November 1999 introduced a securitization framework along with rules governing the setting up and activity of funds management companies.

Policy Development

Access to subsidies has been restricted in recent years. Discussions are underway concerning the regulation of over-indebtedness and mechanisms for simplifying contracts and regulating the involvement of notaries. A new regulation adopted in August 1999 provided the framework for the use of electronic signatures and electronic documents.

Sources and References

1. European Mortgage Federation, Mortgage and Property Markets in 1999, Brussels 2000 www.hypo.org
2. European Mortgage Federation, Hypostat 1988-1998, Brussels 1999
3. IMF: International Financial Statistics, 2000
4. Morgan Stanley Dean Witter, Inside the Global Economy, May 2000. www.msdw.com
5. Credit Suisse First Boston, “Euro-11 Special: Housing Matters”, Economics Research April 2000 www.csfb.com

Spain

Economic Background

				Pesetas	US$
Year	Exchange Rate Pesetas/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	101.93	77.75	6.72	50,145,200	491,957
1991	103.91	82.36	5.93	54,927,300	528,605
1992	102.38	87.24	5.92	59,105,000	577,310
1993	127.26	91.23	4.57	60,952,600	478,961
1994	133.96	95.53	4.72	64,811,500	483,812
1995	124.69	100.00	4.68	69,780,100	559,629
1996	126.66	103.56	3.56	73,743,300	582,215
1997	146.41	105.60	1.97	77,896,600	532,044
1998	149.40	107.54	1.83	82,650,400	553,216
1999	165.00	110.02	2.31	85,708,465	519,445

Source: IMF, Morgan Stanley

The Spanish economy enjoyed another impressive year in 1999. GDP growth was 3%, only slightly below the 4% increase of 1998 and 1.5 percentage points higher than the Euroland average. The drivers were private consumption, which was up 4.5% in real terms, and construction, which was up 8.4%. Additional factors included strong employment growth (3.3%) and a significant cut in personal income taxes. Strong growth and higher oil prices have put some pressure on Spanish inflation recently. CPI inflation rose from 1.8% in 1998 to 2.3% in 1999, but it is expected to level off around 2.5% in 2000. The unemployment rate remains high, but labor market reforms have encouraged increased hiring. As a result the unemployment rate of 18.8% in 1998 fell to 15.9% in 1999, and it is expected to decline another percentage point in 2000.

Housing Market

With population in 1997 at 39,348,000, Spain is the 4th largest EU country. Spain has one of the highest homeownership rates in Europe. 78% (1991) of 18,775,000 dwellings are owner-occupied. The construction sector has been particularly vibrant with housing starts in 1999 at an unprecedented level of 505,000 units. There are signs of slowdown, however. Construction costs are growing very quickly and delays in building and land acquisition are rising. In the second quarter of 1999, a total of 154,553 new homes were started, which was a year-on-year increase of 26.3% in the first six months of the year. In the whole of the first half, housing starts increased at a year-on-year rate of 28.4%, giving the highest volume of starts for the decade. Apartments accounted for nearly 70% of the starts in 1999.

House prices rose by 12% in 1999, thus contributing to a rising inflation rate. The average price was of Ptas 129,855/square meter at the end of the first half of 1999, which was a year-on-year increase of 10%. Since the first quarter of 1998, when prices began to rise, housing appreciated by 12.4%. The typical price for a 150m2 and 100m2 flat at the end of 1999 was 118,000 Euro. The price/income ratio at beginning of 1999 was 4.2.

Year	Housing Starts	Housing Completions	Permits Issued	Existing Dwelling Unit Price*	New Dwelling Unit Price*
1992	210,500	205,720	222,900	113	109
1993	197,300	205,317	218,500	112	113
1994	228,900	219,511	270,000	113	116
1995	303,100	242,100	310,400	117	122
1996	286,800	253,400	284,600	120	125
1997	322,700	272,400	339,500	121	128
1998	407,380	275,570	432,728	127	130
1999	505,500	320,972	520,804	140	132

1990=100; Source: EMF

Mortgage Market

Despite a high homeownership rate, Spain has a relatively low rate of mortgage indebtedness, reflecting the fact that its economy and financial system were liberalized only at the beginning of the 1990s. The mortgage debt-to-GDP ratio was relatively low at 24%, despite a high homeownership rate of 78%. But it has risen from 14% as late as 1993. Mortgage debt accounted for 43% of private sector loans at the end of 1998. The market has been growing rapidly in recent years, and it now ranks as the fifth largest in Europe with outstanding balances of approximately $150 billion at the end of 1999. In 1999, Spain had the fourth largest European level of mortgage originations at $40 billion. This was up 14% from the previous year. Growth has been fueled by low interest rates, high rates of mortgage prepayment and increased competition among retail lenders.

Pesetas (millions)

Year	Outstanding Mortgage Debt/GDP	Mortgage Debt Outstanding	New Originations Net	New Originations Gross
1991	15.1%	8,381,726	1,045,964	2,158,394
1992	15.1%	9,001,483	949,627	2,145,786
1993	14.0%	8,597,008	1,139,776	2,727,465
1994	16.8%	10,933,433	1,915,193	3,042,216
1995	18.0%	12,515,305	1,196,117	2,610,310
1996	19.0%	13,865,133	1,926,281	3,418,420
1997	22.0%	17,153,589	2,979,335	4,821,945
1998	23.0%	21,224,168	3,974,983	5,939,155
1999	24.0%	25,558,047	4,333,880	6,774,209

Source: EMF

Commercial and savings banks (Cajas de Ahorro) dominate mortgage lending in Spain. As of April 1999, the savings banks had a market share of 52.5%, and the commercial banks had a market share of 39.8%. The rest correspond to credit cooperatives (5%) and Mortgage Companies (2%). The market is relatively concentrated. At the end of 1998 the value of the top mortgage lenders (two savings banks and two commercial banks) accounted for approximately 50% of the total mortgage market, and the two largest amounted to 24% of the market. Towards the end of 1999, these 2 lenders, BBV and Argentaria, merged. The merger formed the largest commercial bank and mortgage lender in Spain. Spain's large commercial banks are among the most international, financial institutions in Europe. Both BBV Argentaria and Banco Santander Central Hispano are active in Latin America and, through cross-share ownership in several European countries as well.

Loan types include fixed and variable rate, amortizing loans as well as constant payment annuity loans. Most mortgages (80% in 1996) originated in Spain are variable rate. Traditionally, Spanish lenders made fixed rate loans with hefty prepayment penalties. In the mid-1990s, in response to consumer pressure to refinance older high rate mortgages, the government imposed a ceiling penalty of 1% for ARMs and 3% for FRMs. Loan terms range between 10 and 20 years, with nearly 2/3 over 15 years. The typical loan size is Euro 30,000 to 90,000. The Spanish mortgage market is strongly regulated by the Bank of Spain, which sets standards for mortgage underwriting. Typically the maximum LTV is limited to 80%, and the maximum debt-to-income ratio is 40%.

The rate for variable rate loans is indexed annually. Indexation is based on one of the five indices published monthly by the Bank of Spain: the rate of the average mortgage loan granted by banks, the rate of the average mortgage loan granted by savings banks, the average six month moving average rate negotiated in the secondary market for public debt between 2 and 5 years, MIBOR (Madrid Inter-bank Offer Rate) at one year, and the asset interest rate of savings banks.

Interest rates continued to fall and reached historically low levels in 1999. At the end of 1999, non-subsidized mortgage rates stood at 4.40%. The average interest rate at banks was 4.32%, as compared to 4.65% at savings banks. The average interest rate for all institutions was 4.47% in August. Spanish lenders are beginning to offer mortgages with payment flexibility and longer payback periods. Margins have fallen from over 200 basis points in April 1999 to 100 basis points in April 2000. As of 1998, 81% of Spanish loans had rates determined by the free market.

Interest Rates

Year	Money Market i.e. Interbank	Deposit	Mortgage Rates (variable)	Long-Term Govt Bond Yield
1990	14.76%	10.65%		14.68%
1991	13.20%	10.47%		12.43%
1992	13.01%	10.43%		12.17%
1993	12.33%	9.63%	10.30%	10.16%
1994	7.81%	6.70%	8.70%	9.69%
1995	8.98%	7.68%	8.90%	11.04%
1996	7.65%	6.12%	6.90%	8.18%
1997	5.49%	3.96%	5.60%	5.84%

1998	4.34%	2.92%	4.90%	4.55%
1999	2.72%	1.85%	4.40%	4.30%

Source: EMF, IMF

Deposits fund a vast majority of mortgage loans in Spain. However, wholesale finance is growing in importance. Mortgage bonds ("Cedulas Hipotecarias") were introduced in 1981 but grew only moderately, never representing more than 5% of total mortgage funding. Demand is growing, reflecting lower interest rates and rapid growth of pension and investment funds (strong demand). The issuance of mortgage bonds was robust in 1999, with approximately Euro 1 billion issued. 10% risk weighting for mortgage bonds was established in May 1999, accounting for some of the growth.

Mortgage Bonds (ESP million)

Year	Issued	Outstanding
1991	251,206	667,226
1992	189,529	669,500
1993	349,351	875,607
1994	273,237	910,684
1995	464,360	1,095,863
1996	292,019	1,079,250
1997	362,866	1,135,733
1998	243,454	1,285,246
1999	865,817	1,907,443

Source: EMF

The securitization of real estate loans picked up in early 1999. In the first half of the year, six issues of mortgage-backed bonds were registered at the CNMV (Spanish SEC) for a total of Ptas 635 billion. The total amount of mortgages securitized in Spain since 1992, when this process started, is of nearly Ptas 1.5 trillion. Three-quarters of this have been issued in the last twelve months. The main issuers of MBS have been Caha de Ahorros and Banco Santander. A recent ruling of the Central Bank, allowing mortgage bonds and MBS to be eligible collateral for rediscount, has led to an upsurge in issuance. In June 2000, two large deals of Euro 514 billion and Euro 459 billion were announced by a consortium of regional savings banks and Union De Creditos Immobiliarios, the Spanish mortgage lender owned by Banco Santander Central Hispano and BNP Paribas, respectively.

Mortgage-Backed Securities (ESP million)

Year	Issued	Outstanding
1993	34,489	34,043
1994	82,256	111,260
1995	110,569	202,926
1996	2,855	159,889
1997	116,104	243,785
1998	640,225	830,919

1999	981,093	1,616,191

Source: EMF

Policy Developments

A new foreclosure law was approved in January 2000 that will reduce by 20% the value of properties going through foreclosure. The amount of the notary's fee for mortgage deed registration has been reduced by 25%. The level of mortgage interest deductibility has been lowered as has the fiscal advantage attached to housing savings accounts. Following the implementation of Article 22§4 of the UCITS directive, the cedulas hipotecarias have been allowed a 10% weighting.

The present housing subsidy system, Vivienda de Protección Oficial, has 3 main components: First, local councils provide developers with land for building "state-subsidized" housing, which they have to sell at a certain price. Second, requirements are established for accessing these homes, most important of which is an income limit based on income tax returns. Third, there is a privileged financing schemes for developers and for people buying the homes. In the latter, the interest rates are fixed on an annual basis as a percentage (70%) of the index for all financial institutions in the previous year.

Sources and References

1. European Mortgage Federation, Mortgage and Property Markets in 1999, Brussels 2000 www.hypo.org
2. European Mortgage Federation, Hypostat 1988-1998, Brussels 1999
3. Argentaria, Real Estate, Volume 2, No. 20, October 1999
4. IMF: International Financial Statistics, 2000
5. Moodys Structured Finance: 1999 Year in Review and 2000 Outlook, February 2000 www.moodys.com
6. Morgan Stanley Dean Witter, Inside the Global Economy, May 2000. www.msdw.com
7. Spanish Mortgage Association (Asociación Hipotecaria Española), Present Situation and Recent Evolution of the Spanish Mortgage Market, presentation at the Pan-European Mortgage Market 2000 Conference, Barcelona, September 2000 http://www.asoc-hipotecaria.es
8. Fitch ICBA, "Spanish Mortgage Default Model", January 1999 www.fitchicba.com
9. Credit Suisse First Boston, "Euro-11 Special: Housing Matters", Economics Research April 2000 www.csfb.com

SWEDEN

Economic Background

Year	Exchange Rate Kronor/US$	Consumer Price Index	Change In Consumer Prices	Kronor Nominal GDP (Millions)	US$ Nominal GDP (Millions)
1992	5.82	91.20	2.29%	1,441,720	247,718
1993	7.78	95.43	4.64%	1,446,200	185,887
1994	7.72	97.53	2.20%	1,531,100	198,329
1995	7.13	100.00	2.53%	1,649,900	231,403
1996	6.71	100.40	0.47%	1,688,200	251,595
1997	7.63	100.99	0.52%	1,738,900	227,903
1998	7.95	100.85	-0.14%	1,800,580	226,488
1999	8.26	101.31	0.45%	1,869,002	226,271

Source: IMF, Morgan Stanley

Swedish economic growth continued to be strong. GDP grew by 3% in 1998 and 3.8% in 1999, and all indications are for even stronger growth in 2000. Impetus comes from consumer spending fuelled by record high consumer confidence and solid job creation. Private spending will be boosted by robust employment growth and income tax cuts in 2000 and 2001. In addition, there is a continued high level of investment spending in information and communication technology. Inflation has remained relatively subdued despite the acceleration in growth, mainly due to large-scale telephony and utilities deregulation putting downward pressure on prices. Inflation has been virtually non-existent over the past 4 years, but it is expected to rise modestly in the next 2 years. There is speculation about a referendum on Sweden's entrance to EMU, but such a referendum is unlikely until after the next elections.

Housing Market

There are 4,200,000 dwellings in Sweden, of which 60% are owner-occupied. The population was 8.85 million (1997). The housing market suffered through a depression in the early 1990s with housing starts falling from a level of 50,000-70,000 per year to 12,000 to 13,000. The 1999 level of 15,000 starts was the highest since 1993. The housing market picked up in 1999, reflecting strong, economic growth and low interest rates. Existing house prices rose above 1990 levels for the first time in 1998 and increased by 9.3% in 1999. Housing starts were at very low levels throughout the decade. The typical price for a 150m2 and 100m2 flat at the end of 1999 was 133,000 Euro.

Year	Housing Starts	Housing Completions	Transactions Involving Dwellings**	Construction Cost Index*	Existing House Price*
1992	52,000	57,319	33,300	105	97
1993	12,000	56,912	35,700	106	86
1994	12,000	21,630	42,700	107	90
1995	12,000	12,000	41,900	114	91
1996	13,000	11,000	46,600	115	91
1997	12,200	13,000	54,700	116	98

1998	12,450	11,500	52,200	120	107
1999	15,000	14,000	57,100	122	117

*1990=100; **1-2 family units. New dwellings not included; Source: EMF

Mortgage Market

After several years of declining activity, the mortgage market picked up in 1999 with outstanding mortgage loans increasing every month. The growth spurt reflected strong economic growth and low interest rates. Gross lending picked up significantly in 1996, and it continued to rise throughout the decade. Net lending increased significantly, but did not, however, approach levels of the beginning of the decade.

Specialized mortgage credit institutions, most of which are owned by commercial banks, are the largest source of credit in the Swedish market. Their loans are secured mainly with mortgages or local, government guarantees. The mortgage credit institutions constitute the Swedish membership of the European Mortgage Federation and grant approximately 80% of the mortgage credit in Sweden. The remainder is granted by banks. The two largest mortgage credit institutions are Spintab, owned by Swedbank, and SHB (Stadshypotek), owned by Handelsbank. Each holds about 30% each of the total market. SBAB and Nordbanken Hypotek each have approximately a 14% market share and SEB has 11%. At the beginning of 2000 a new company, EuropeLoan, entered the Swedish market. This company, which is based in Belgium, provides mortgage loans only through the Internet.

Millions SK

Year	Outstanding Mortgage Debt/GDP	Mortgage Debt Outstanding*	New Originations Net*	New Originations Gross*
1992	57.1%	831,253	62,716	100,588
1993	66.3%	899,004	66,804	102,798
1994	63.4%	900,800	1,774	68,304
1995	64.3%	922,608	21,775	86,002
1996	59.0%	946,203	23,677	161,598
1997	57.3%	939,101	(7,153)	167,100
1998	52.2%	939,296	228	158,498
1999	52.0%	971,099	31,801	171,798

*Specialized lenders only; Source: EMF

Mortgage credit institutions provide credit not only for residential property (apartments, co-operates associations, residential leases, private houses, country cottages) but also for commercial property. In 1999, the distribution by loan purpose was:

Loan Purpose	
Single family	47.61%
Multi family	40.86%
Comm. Prop	3.33%
Coop. Shares	4.16%
Other	4.04%

Source: SEB

Swedish lenders grant both fixed and variable rate mortgage loans. Fixed rate loans are typically granted at a rate fixed for 2-5 years. During 1999, short-term interest rates were lower than long term rates. As a result, the proportion of loans at a variable rate rose to nearly 50% of all loans. Mortgage rates fell to decade lows of 5-5.5% in 1998 before rising in 1999. There is a good deal of product innovation taking place, including offering caps and floors, bundling mortgages with other financial products and giving "Internet discounts".

Interest Rates

			Mortgage Rates		
Year	Money Market i.e. Interbank	Deposit	Fixed 2years	Fixed 5year	Long-Term Govt Bond Yields
1992	18.42%	7.80%			10.02%
1993	9.08%	5.10%	8.00%	10.50%	8.54%
1994	7.36%	4.91%	11.40%	12.30%	9.41%
1995	8.54%	6.16%	8.70%	8.90%	N/A
1996	6.28%	2.47%	5.60%	6.90%	N/A
1997	4.21%	2.50%	6.20%	6.60%	N/A
1998	4.24%	1.91%	5.00%	5.50%	4.20%
1999	3.14%			7.10%	5.60%

Source: EMF, IMF

The mortgage institutions finance their lending mainly by issuing mortgage bonds and certificates. Mortgage certificates are shorter term than mortgage bonds. The relationship between the two primarily depends on interest rates and the demand for different maturity instruments. In 1999, about 67% of lending were financed by mortgage bonds and 11% by mortgage certificates. In 1998 the figures were 70% and 6%, respectively. The bank-owned companies also raise funds via their parent banks.

Mortgage Bonds (million SK)

Year	Issued	Outstanding
1992	170,710	787,102
1993	231,099	872,997
1994	218,302	838,002
1995	135,602	792,000
1996	159,496	660,504
1997	209,601	690,183
1998	247,704	740,256
1999	201,604	690,942

Source: EMF

Sources and References

1. European Mortgage Federation, Mortgage and Property Markets in 1999, Brussels 2000 www.hypo.org
2. European Mortgage Federation, Hypostat 1988-1998, Brussels 1999

3. IMF: International Financial Statistics, 2000
4. Morgan Stanley Dean Witter, Inside the Global Economy, May 2000. www.msdw.com
5. Svenska Bankföreningen (Swedish Bankers' Association), 1999 www.bankforeningen.se
6. Swedish Board on Hosing Building and Planning, www.boverket.se
7. Swedish Central Bank www.riksbank.se
8. Credit Suisse First Boston, "Euro-11 Special: Housing Matters", Economics Research April 2000 www.csfb.com

Contacts

1. The Swedish Bankers Association
   Regeringsgaten 38
   PO Box 7603
   SE 10394
   Stockholm
   Tel: 46.8.453.4400
   Fax: 46.8.796.9395
   http://www.bankgoreningen.se

SWITZERLAND

Economic Background

				Francs	US$
Year	Exchange Rate Francs/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	1.39	85.60	5.41%	317,300	228,273
1991	1.43	90.60	5.84%	333,660	233,329
1992	1.41	94.27	4.05%	342,360	242,809
1993	1.48	97.40	3.32%	349,800	236,351
1994	1.37	98.22	0.84%	357,460	260,920
1995	1.18	100.00	1.81%	363,330	307,907
1996	1.24	100.81	0.81%	365,830	295,024
1997	1.45	101.29	0.48%	371,590	256,269
1998	1.45	101.35	0.06%	380,010	262,076
1999	1.50	102.18	0.82%	N/A	N/A

Source: IMF

The World Competitiveness Yearbook in 1997 cited Switzerland as having the highest income and private consumption per capita in the world as well as strong internal and external price stability.

The gross domestic product of Switzerland in 1998 was approximately CHF380 billion, and it is predicted to grow by around 2 percent in 1999. Switzerland has experienced a protracted period of economic stagnation since 1990. This was mainly due to low, domestic consumer demand, a heavy recession in the construction sector, tight fiscal policy and the strength of the Swiss Franc against other major currencies impeding satisfactory export growth.

The year on year inflation rate was zero percent during the first quarter of 1998, but it was expected to rise in 1999 to levels above 1 percent per annum in the wake of strong economic recovery.

In May 1998, the seasonally adjusted unemployment rate in Switzerland was approximately 3.9% of the adult working population, and this rate was expected to drop further throughout 1998 and 1999.

Housing Market

Approximately 31 percent of the Swiss population are homeowners. The relatively low percentage of home ownership is mainly due to high land prices as a result of land shortages and high property prices due to high construction standards and expensive labor.

Owing to Switzerland's small size, it is relatively easy for people to change employment without moving house. This leads to a low turnover rate for residential property. The average number of occupants is less than 2.5 people per dwelling. In addition, due to the high cost of residential property, homeowners tend to have higher personal wealth than other comparable countries in Europe. They rarely buy property until their 30s, with the average age of a first time buyer being 36 years. As many purchasers have already started families by this time, the property is generally purchased with a view to staying in it until much later in life than in other comparable countries. This also gives rise to a low level of new homeowners.

There are no long-term property price statistics available in Switzerland, but indices have been published by the real estate research company, Wuest and Partners, which dates back to 1980. From 1980 to 1991, residential property prices in all of Switzerland rose approximately by 128 percent. Since then, prices have fallen constantly year on year with a total fall of approximately 25 percent from 1991 to 1997; however, the average price of a home is still higher than the rest of Europe. During the first quarter of 1998, a turnaround has become clearly visible as indices have shown increases in residential property prices. Historically, there have been regional differences in property prices in different parts of Switzerland.

Mortgage Market

Mortgage loans for home ownership in Switzerland are largely provided by banks, insurance companies and pension funds. As at the end of 1997, the total amount of domestic mortgage loans advanced was CHF532 billion. The amount of mortgage loans made by Swiss banks grew by 7.5 percent per annum. Roughly two thirds of these loans were made to private households, a quarter to non-financial businesses and the remainder to financial businesses and others.

It should be noted that Switzerland has a level of per capital retail mortgage financing that is significantly higher than all European countries. 1998 Mortgage lending practices in Switzerland was equal to ECU28,077 per capita. The closest markets are Denmark at ECU14,940 and The Netherlands at ECU14,033. Considering the high volume of loans, it is of no surprise that Switzerland has the highest level of outstanding mortgage debt / GDP at 87.7%.

Banks provide approximately 95% of mortgage lending in Switzerland. The three largest Swiss Banks, Swiss Bank Corporation, Union Bank of Switzerland and Credit Suisse Group, have together a total of about thirty-nine percent of the mortgage loan market. The 24 Cantonal banks have the next largest share of the mortgage loan market with about thirty-five per cent of the total. The remainder of the market is made up by regional and savings banks, Raiffeisen (co-operative) banks, insurance companies and other financial institutions. The rest of the market share is made up predominantly with the life insurance companies and pension funds.

Swiss residential mortgage loans are basically of two types. Firstly, a variable rate mortgage loan with a rate being bank-administrated which follows closely the prevailing interest rates. The rate is adjusted periodically according to capital markets. The rents in

Switzerland are linked to the variable mortgage rates of the Cantonal banks. This leaves the variable rate market subject to political bias. Secondly, there is a fixed rate mortgage loan (which appeared first in the early 1980s.) These rates are mostly fixed for a period of 3 to 5 years. After this time the rates are adjusted for the next period, or the borrower has the option to switch to a variable rate mortgage and back again at the end of another period. The fixed rate mortgage loan will usually not be repayable early, and if it is, it will only be repayable upon payment of a prepayment charge, which is usually equivalent to the full cost to the lender of the repayment of the mortgage loan.

There is no single interest rate that applies to all mortgage loans. Lenders have different rates for different products, existing and new loans, first and second mortgages, and risks attached to different types of property and different debtors.

In Switzerland, banks have traditionally funded mortgage loans from savings deposits made by customers. Since the 1990s, banks have also sourced mortgage funding from other products, including fixed and floating rate note issues and mortgage bonds. The value of mortgage bonds outstanding amounted to EUR 21.1 billion at the end of 1998, making mortgage bonds the second largest securities segment after confederate bonds (EUR 27.6 billion). Mortgage bonds financed approximately 7% of the outstanding mortgage loans in 1998, and this proportion is expected to rise. New production of mortgage loans was EUR 7.3 billion in 1998, and mortgage bonds outstanding rose by EUR 3.1 billion.

Centralized mortgage bond issuers are (names) Swiss Pfandbriefbank der Schweizerischen Hypothekarinstitute. These institutions act as centralized bond issuers for mortgage lenders, raising funds through sale of bonds and providing loans to banks. There is currently only one issuance of MBS in Switzerland. This issuance is from Union Bank of Switzerland. The Swiss mortgage market is not conducive to securitization. Partly responsible for the unfriendly MBS market is the fact that the mortgage market is not uniform, with the 26 Cantonal banks having different legislation. Also obstructing mortgage-backed securitization is the fact that historical data can not easily be obtained from the banks. This is necessary for the rating process. So far, Swiss regulating rules do not make MBS issuance a relatively easy and efficient process.

Security interests over residential property are generally created under Swiss law in one of two ways: through a mortgage on real property (Grundpfandverschreibung) or a mortgage note (Schuldbriefe). The Schuldbriefe is the most common method to secure mortgage loans. It entitles the holder, on presentation to the appropriate debt enforcement office, to realize the security evidenced by the Schuldbriefe and to sue on the personal covenant of the debtor to pay amounts outstanding under the mortgage loan. A Schuldbrief can be used to secure all types of credit to the debtor.

The average period from a debtor’s default until sale of the property through the auction process is between one and two years. On the sale of the property, the lender will be entitled to recover from the net proceeds of sale the principal amount due in respect of the mortgage loan, up to three years' interest (if owing), plus interest from the date of filing of the request for auction.

In practice, lenders will generally attempt to find a means of repayment of the debt without recourse to the auction process, such as a voluntary sale of the property by the debtor or by encouraging the debtor to remortgage with another bank. Such actions are taken, because the amount recovered at auction will usually be less than that obtainable through a voluntary sale.

Sources and References

1. Schweizerischer Bankverein (Deutschland) AG SBC Warburg Dillon Read. "Tell Mortgage-Backed Trust, 1998-1." June 15 1998.
2. International Monetary Fund: IMF Statistics, 2000
3. Credit Suisse Economic Research, EBIC Economic Business and Information Center

Economic Background

				British £	US $
Year	Exchange Rate £/US $	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	0.56	84.61	9.48%	554,490	990,161
1991	0.57	89.57	5.85%	582,950	1,022,719
1992	0.57	92.91	3.73%	606,580	1,064,175
1993	0.67	94.36	1.56%	637,820	951,970
1994	0.65	96.70	2.48%	676,040	1,040,062
1995	0.63	100.00	3.41%	712,550	1,131,032
1996	0.64	102.45	2.45%	754,600	1,179,063
1997	0.61	105.66	3.13%	803,890	1,317,852
1998	0.60	109.27	3.42%	843,730	1,406,217
1999	0.62	110.97	1.56%	861,448	1,389,433

Source: IMF, Morgan Stanley

The UK economy has been a strong performer over the past 2 years. GDP growth in 1999 was over 2.1% with inflation falling to a decade low of 1.56%. The labor market was buoyant with falling unemployment and strong earnings growth. The unemployment rate fell to 4% at the end of 1999, a 20 year low. The IMF recognized the UK as having made significant progress in addressing labor market rigidities, which in turn lead to a reduction in structural unemployment. Quarterly growth was down to 0.4% in the first quarter of 2000, reflecting the strength of the pound sterling and continued high real interest rates. Industrial production has slowed, while the service sector remained buoyant. This has created concerns of a 2-speed economy.

Housing Market

As of 1997, there were 24,216,000 dwelling units in the UK. At 67%, the UK has one of the higher home-ownership rates in Europe. The population was 58.2 million (1997).

The macro-economic environment has been conducive to growth in the housing market. House prices increases have accelerated over the past two years. However, housing supply has been unresponsive to price, magnifying the effects of growing demand. Despite the strong growth in demand, the 1999 number of housing starts was virtually unchanged from the level of the previous year of just over 179,000. Both the Halifax and Nationwide house price indices have shown house prices in the first quarter of 2000 around 15% higher than a year earlier. The level of property transactions showed a healthy 9% growth in 1999. The mix adjusted (mortgaged), average house price in the UK at the end of 1999 was £93,500 ($150,800). The ratio of house price-to-earnings was 4. This was the highest level since 1991.

(Thousands)

Year	Housing Starts	Housing Completions	Transactions Involving Dwellings	House Price Index: All dwellings
1992	154,100	167,300	1,138,100	95
1993	182,300	176,100	1,195,000	93
1994	199,700	183,900	1,275,000	95
1995	167,100	188,600	1,134,000	96
1996	172,400	178,300	1,241,000	99
1997	188,600	177,900	1,440,000	108
1998	180,100	170,100	1,348,000	120
1999	179,700	170,800	1,469,000	134

Source: EMF

Mortgage Market

The UK has the second largest mortgage market in Europe with US $ 796 billion in outstanding residential mortgage loans at the end of 1999. The stock of mortgage debt is relatively large, compared to the size of the economy (57%), reflecting the high homeownership rate and a high degree of indebtedness. The UK had a record high volume of mortgage originations (gross advances) of $184.5 billion in 1999, reflecting a relatively high mobility rate and substantial growth in loans for home purchase. The level of origination is the highest in Europe. The rate of increase in 1999 was over double that between 1997 and 1998. While the increase in 1998 was driven by re-mortgage (mortgage refinance) activity (approximately 30% of mortgage originations), the main boost in 1999, was the surging house buying market. As a result the level of net originations (gross lending less amortization and prepayment) was only 33% of gross originations.

Mortgage Market

		£ millions			
Year	Outstanding Mortgage Debt/GDP	Mortgage Debt Outstanding	New Originations Net	New Originations Gross	Number of new housing loans approved
1990	54.5%	294,689	33,352	69,830	
1991	54.7%	319,123	25,906	64,399	
1992	52.8%	341,689	18,514	54,011	
1993	59.0%	359,868	16,751	54,423	
1994	55.9%	377,321	19,289	58,114	
1995	54.6%	391,515	15,210	57,457	
1996	60.9%	407,662	19,016	71,322	
1997	56.8%	431,418	23,829	77,194	1,186,000
1998	53.1%	455,834	25,181	89,206	1,035,000
1999	57.2%	493,815	37,894	114,417	1,181,000

Source: EMF

The UK market was traditionally dominated by building societies. They are depository institutions that specialize in housing finance. As recently as 1996 the building society market share was 55% of both outstanding mortgages and new originations. Their market share plummeted to 23% by 1999, reflecting institutions converting from a building society to a commercial bank charter. The commercial bank market share has increased to more than 70%, with specialized lenders (non-depository institutions similar to US mortgage banks) accounting for the remaining 7%. In recent years, the specialized lenders have focused on the emerging sub-prime market. The largest UK mortgage lenders are Halifax, Abbey National, C&G/Lloyds TSB, Nationwide Building Society, and the Woolwich plc.

Largest Mortgage Lenders (Ranked by Mortgage Assets)		
Name of Group	**Year Ended**	**£ billion**
Halifax plc	31-Dec-99	93
Abbey National	31-Dec-99	64.9
Lloyds TSB	31-Dec-99	47.5
Nationwide BS	04-Apr-99	36.9
Woolwich plc	31-Dec-99	25.5

UK savings and lending markets are rapidly changing. New entrants are taking substantial market share in both retail savings and mortgage lending. Standard Life and Prudential (through its Egg brand) entered in the market at the beginning of 1999 and provided 20% of net advances (mainly refinancing loans from building society and commercial bank lenders) during the first half of the year. Other non-traditional institutions with strong brands such as Virgin, Tesco and Sainsbury have aggressively entered the savings and mortgage loan markets as well.

The standard mortgage instrument in the UK is a discretionary ARM – a loan the rate of which is determined and adjusted by the lender at its discretion (known as the Standard Variable Rate SVR). The rates on this loan are typically set as a spread (historically 200+ basis points) over the average, retail cost of funds. The wide spreads on existing loans and the discretionary power of lenders allowed them to compete for market share by offering heavily discounted start rates and even cash-backs to new borrowers. The effect of the discounting can been seen in the lower, average rate for all borrowers as compared to the basic SVR rate below. In recent years, short term, fixed rate mortgages have accounted for 30 to 50% of new originations. These loans have rates fixed for 1 to 5 years after which time they convert to SVR. As of June 1999, 20% by number and 27% by value, were fixed rate mortgages. This is a significant increase over June 1997, when 13% by number and 19% by value were fixed rate.

A recent innovation in the UK market is the flexible mortgage. The instrument was a reaction to the difficulties faced by borrowers in the early 1990s and to the changing nature of the labor market. Although the characteristics of flexible mortgages vary, they are commonly associated with efforts to assist households facing more unpredictable income streams such as the self-employed and those on short-term contracts. Therefore, they allow for underpayments or overpayments and so-called “payment holidays”. Some flexible mortgages allow consumers to consolidate both secured and unsecured lending into one loan. Other products go a step further and incorporate a current account facility.

Interest Rates			Mortgage Rates		Gov't Bond Yields	
Year	Money Market i.e. Interbank	Deposit	Average All Borrowers	Basic Rate	Short-term	Long-term
1990	14.64%	12.54%	14.34%	14.48%	12.08%	11.08%
1991	11.77%	10.28%	11.39%	11.52%	10.18%	9.92%
1992	9.39%	7.46%	8.98%	8.98%	8.94%	9.12%
1993	5.46%	3.97%	7.94%	7.99%	6.65%	7.87%
1994	4.76%	3.66%	7.84%	8.14%	7.83%	8.05%
1995	5.98%	4.11%	7.48%	7.98%	7.93%	8.26%
1996	5.89%	3.05%	6.51%	7.00%	7.28%	8.10%
1997	6.56%	3.63%	7.58%	8.16%	6.98%	7.09%
1998	7.09%	4.48%	7.29%	7.75%	5.77%	5.45%
1999			6.49%	6.88%		

Source: IMF, BSA (mortgage rates for building societies)
Basic rate is the standard variable rate charged by societies at their discretion. Average mortgage rates reflect initial period fixed rates and discounts.

The legal system is supportive of mortgage lending in the UK. During the early 1990s, there was a high level of arrears. This was due to a down turn in the economy, and the situation of negative equity faced by large numbers of highly leveraged homeowners. The arrears (3 months +) and possessions have declined significantly from 5.4% of all loans in the peak year of 1993 to 1.77% at the end of 1999.

The majority of institutions in the UK have traditionally funded mortgage loans through retail and wholesale (floating rate note) markets. The UK has been on the forefront of securitization in Europe. The first MBS was issued in 1985, and in most years since then, the volume of UK issuance has been greater than that of any other European country. The value of MBS issued in 1999 was $8.3 billion. This was more than double the $3.9 billion issued in 1998. In the UK, new issues of MBS in 1999 totaled EUR 8.2 billion, which represents 4.5% of gross mortgage lending in the period. MBS are becoming more popular as a method of removing assets from balance sheets to reduce the amount of capital, which has to be retained. As the market for mortgages becomes more competitive in the UK, the use of MBS is likely to become more common. A major change in MBS issuance is the emergence of major bank issuers, such as Abbey National.

Mortgage Backed Securities	
Year	Issued
1991	2,342
1992	418
1993	1,020
1994	2,333
1995	-
1996	-
1997	1,937
1998	2,348
1999	5,127

Source: EMF

Policy Developments

A voluntary code aimed at promoting good practice in the mortgage selling process, including the provision of advice to customers and relations with borrowers over the life of the loan, was adopted by mortgage lenders in mid-1997. Reflecting the fact that half of all mortgages are channeled via intermediaries, the Code was extended to include intermediaries in April 1998. However, the efficacy of the code of conduct for mortgage lenders has been strongly questioned, and the possibility of regulating mortgage activities is under examination.

The government has recently announced details for a new voluntary CAT (Charges, Access and Terms) standard for mortgages. There will be two CAT standards: one for variable rate mortgages and one for fixed and capped rate mortgages. In effect, CAT standards are a benchmark for mortgages. Interest rates on CAT variable rate loans must be set no higher than 2% above the base rate. For fixed and capped rate loans redemption charges should be no more than 1% of the loan for each remaining year of the fixed or capped rate period. The CAT mortgage also has interest calculated daily.

Sources and References

1. European Mortgage Federation, Mortgage and Property Markets in 1999, Brussels 2000 www.hypo.org
2. European Mortgage Federation, Hypostat 1988-1998, Brussels 1999
3. Coles, A., “Securitization: What Is Different About the USA”, Housing Finance International, March 1999
4. Council of Mortgage Lenders, Housing Finance, 46, May 2000
5. IMF: International Financial Statistics, 2000
6. Morgan Stanley Dean Witter, Inside the Global Economy, May 2000. www.msdw.com
7. Moodys Structured Finance: 1999 Year in Review and 2000 Outlook, February 2000 www.moodys.com
8. Coogan, Michael, Recent Developments in the UK Housing and Mortgage Markets Housing Finance International, March 1998
9. Heard, C. and P. Williams. “Flexible Mortgages: The Product for the Next Millennium”, Housing Finance International, September 1998

Contacts

1. Council of Mortgage Lenders
   Michael Coogan, Secretary General
   3 Savile Row
   London
   W1X 1AF
   Tel: 020 7437 0075
   Fax: 020 7434 3791
   Email: info@cml.org.uk
   http://www.cml.org.uk

2. British Building Societies Assn
   Adrian Coles, Secretary General
   3 Savile Row
   London
   W1X 1AF
   Tel: 44.171.437.0655
   Fax: 44.171.734.6416
   Email: adrian.coles@bsa.org.uk

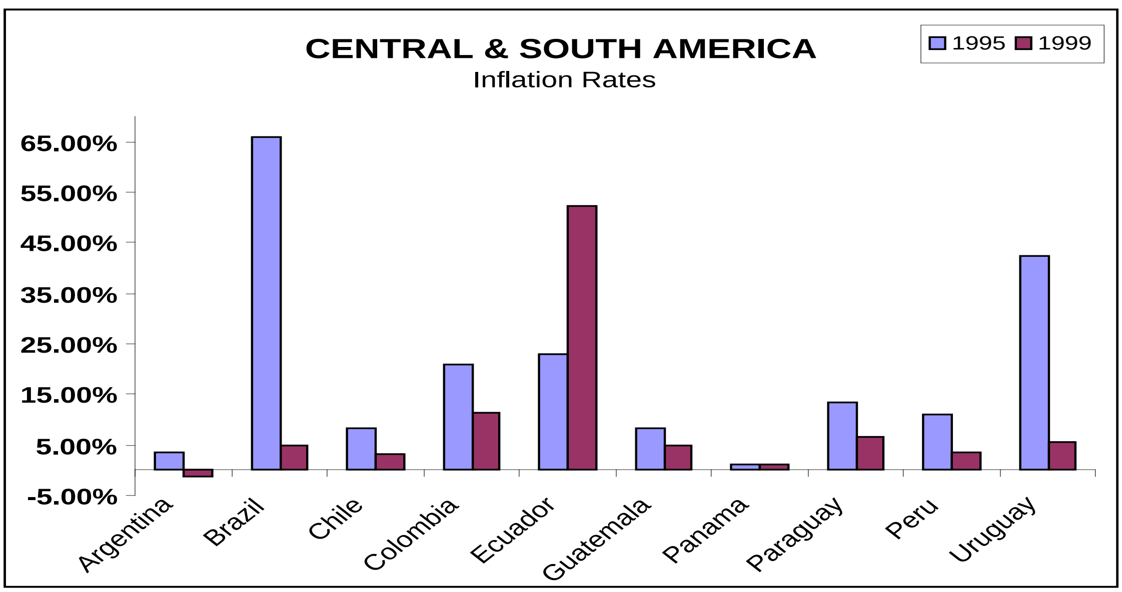
CENTRAL & SOUTH AMERICA

Regional Summary

Central & South America

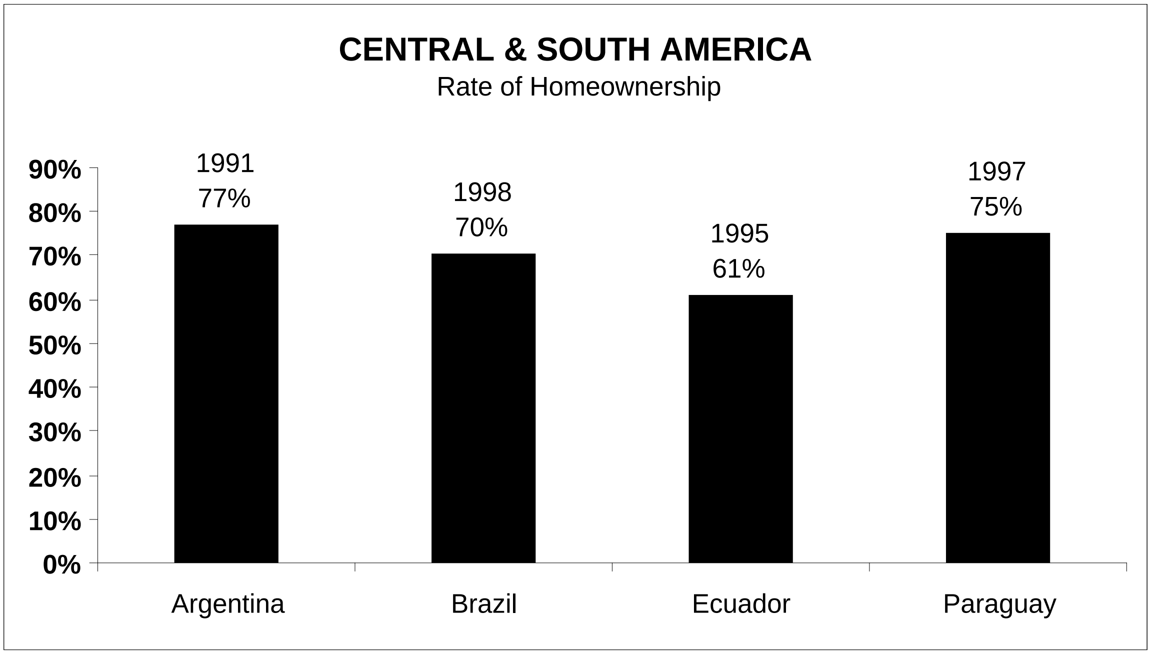
The regions of Central and South America have commonly been hard hit by the financial crises of the past decade. The regional economies experienced small, steady growth until the last half of the 1990s. The Mexican financial crisis, the Asian financial crisis, and more recently the Russian financial crisis have all impacted the economic growth of this region. In addition, the effects of the El Nino weather pattern in 1998 caused deterioration in much of the regional economies and financial systems – the latter as banks were forced to accommodate the devastated fishing and agriculture sectors.

Inflation has been a major contributor to the slow pace of the financial sector and housing finance development. For much of the decade, inflation rates resided at the double digit and some instances, triple and quadruple digit marks. Controlling inflation has become the primary policy goal of most the countries in the region. While inflation rates are still quite high in some of the nations, countries like Argentina, Brazil, Guatemala, Panama, and Peru have implemented strict monetary policies to manage inflation rates below 4% for at least the last three years. Ecuador, the only country with an increasing inflation rate, officially adopted the US Dollar as its national currency at the beginning of 2000.



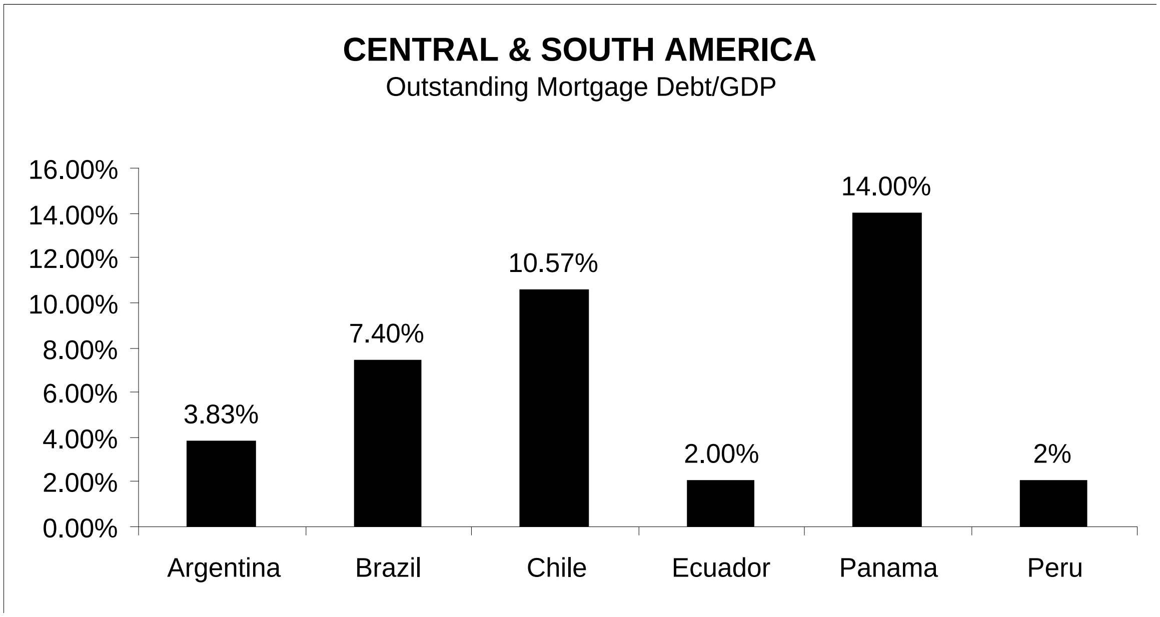
Source: IMF

Central and South American countries have high rates of homeownership reflecting a cultural preference and the lack of rental housing policies and finance.



Housing shortages have been and continue to be a concern for just about all of Central and South American countries. The lack of long-term finance, along with the inability to obtain cost-effective techniques for construction are some of the deterrents present in keeping up with the area's housing demands. The average number of people per household has been dropping, causing more strain on the area's housing deficit. Housing starts, while still growing, are lagging behind population growth trends and total demand. In general, poverty has been another barrier to the ability to create a viable housing market.

Lack of capital for funding long–term loans is one key aspect plaguing the mortgage markets of Central and South America. The effects of high inflation have eroded capital balances which in turn have limited supply. With financing not so easily obtained or offered, most homes are purchased or built without formal financing. Countries like Chile & Columbia have pioneered the use of inflation indexed mortgages to combat trends of high inflation mortgage affordability.



While formal housing finance systems are new to some areas of the region, it should be noted that by the end of the 1990s, outstanding mortgage debt was on the rise. This can be attributed to more stable economic policies, and increasing sophistication of lenders. Usually, depending on the cost of the dwelling and/or personal income, housing finance for this region can be obtained through commercial and public-owned banks and financial institutions.

The 1990's also brought the introduction of mortgage backed securities to the Latin American region. In 1994 Colombia issued the first mortgage securitization transaction in Latin America, and there have been four securitization transactions in Argentina since 1997.

Argentina

Economic Background

				Pesos	US$
Year	Exchange Rate Pesos /US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Thousands)	Nominal GDP (Thousands)
1990	0.56	24.74	2313.96%	68,922,300	123,075,536
1991	1.00	67.21	171.67%	180,898,000	180,898,000
1992	0.99	83.95	24.90%	226,847,000	229,138,384
1993	1.00	92.86	10.61%	236,505,000	236,505,000
1994	1.00	96.73	4.18%	257,440,000	257,440,000
1995	1.00	100.00	3.38%	258,032,000	258,032,000
1996	1.00	100.16	0.16%	272,150,000	272,150,000
1997	1.00	100.69	0.53%	292,859,000	292,859,000
1998	1.00	101.62	0.92%	298,131,000	298,131,000
1999	1.00	100.43	-1.17%	283,100,000	283,100,000

Source: IMF

Argentina has an economy based primarily on manufacturing, and to a lesser extent agriculture. Throughout the 1980s and early 1990s, it suffered bouts of hyper-inflation that severely constrained the growth of the financial and mortgage markets.

Since 1992 the country has experienced remarkable economic improvement. Strict monetary and fiscal policy of the Menem government has resulted in inflation that has been near zero since 1996. Until a recession hit in 1998, Argentina experienced consistently strong growth in real GDP.

Despite its recovery, Argentina has found that it is not immune to contagion from financial crises in other parts of the world. Argentina experienced a liquidity crisis in its banking sector in 1995. Due in part to investor reaction to the Mexican financial crisis, many Argentine banks were pushed to the brink of insolvency. Economic growth has been a challenge to Argentina over the last two years as the economy has stagnated while dealing with new political and structural changes. GDP growth for 2000 is forecasted at 2.5%. Unemployment stands at 15%, and it is higher in the interior of the country.

Economic growth and stability aside, recent regulatory and monetary measures have made Argentina a far more attractive place for foreign businesses. The “new” Argentine economy has encouraged a repatriation of national capital held abroad, reversing the massive capital outflows of the past (as indicated by the huge increase in foreign currency time deposits held by Argentine banks). Foreign capital is again available after the exodus of 1995. Greater financial solvency, transparency, and security of the financial system now offer a more solid market for foreign banks and broker-dealers.

Housing Market

Development of the Argentine residential real estate market was severely constrained by the macroeconomic instability of the 1980s. The inability to obtain cost-effective funding for construction and the inability of potential purchasers to obtain long term financing resulted in a severe housing deficit. A 1994 study indicated the deficit to be approximately 3 million units.

Recovery of the general economy has resulted in a recovery in the real estate sector. Affordable long term financing has made it possible to increase the rate of building. This is seen in the issuance of residential building permits which increased (in terms of total area) 34% between December 1996 and December 1997.

Year	Construction Cost Index	%Change in Construction Cost Index	Population (Millions)	Total Dwelling Stock (1000)	Permits Issued (1000 Sq Meters)
1990			32.53		
1991			32.97	10,080	
1992			33.42	-	4,800
1993	100.0		33.87	-	4,500
1994	102.3	2.30%	34.32	-	6,552
1995	104.6	2.25%	34.77	-	3,912
1996	101.2	-3.25%	35.22	-	4,032
1997	102.0	0.79%	35.67	12,000	5,400

Source: Cardiff Consulting Services, Argentina: Market Review, October 1998

Aiding the recovery of the market has been the cost of construction, which has remained relatively low. In 1996 the change in the construction cost index was –3.25% as compared to general inflation, which was at .16%. In 1997 construction costs rose .79%, which was slightly higher than inflation. The expected trend in the construction industry is continued growth through the end of the 1990s.

Average single family home prices in the country averaged US$ 45,000, and the owner occupancy rate according to the 1980 census was 68%.

Mortgage Market

Relative to many countries, the Argentine housing finance market is very small. By mid-2000 the mortgage debt outstanding to GDP ratio was around 4.0%. This situation is due to the relative newness of the housing finance industry. Prior to 1991 the Argentine mortgage market was virtually non-existent. Inflation eroded real balances and resulted in a lack of long term funds that could be used for housing. Consequently, homes were purchased with cash and short term personal loans.

Economic stabilization, which began to take effect in the early 1990s, made mortgage lending possible. Interest rates, which were in the 4 digits in 1990, were down to the single digits by 1994. Contagion from the Mexican financial crisis of December 1994 dampened the growth of the mortgage market but it has since experienced a recovery.

Since 1994, the trend of the market has seen a gradual increase. Outstanding mortgage debt increased from $ 5.2 billion in 1994 to $ 16.5 billion in 1999. On a per capita basis mortgage debt grew over 90%, from $ 137 to $ 264, between 1994 and 1998.

In addition to stable macroeconomic policy, other factors contributing to the gradual growth of the mortgage market include: increasing sophistication of lenders, ability of lenders to access long term funds, the development of mortgage securitization and the Central Bank's focus on standardization of mortgage product and documentation.

Millions of Pesos

Year	BH Lending*	BH Outstanding	System Mortgage Debt Outstanding	System Lending**	Outstanding Mortgage Debt/GDP
1996	844	3,287	11,000	-	3.45%
1997	989	3,084	12,800	1,992	3.70%
1998	-	3,629	15,387	2,300	3.83%
1999	425	4,625	16,500	1,274	

Source: Cardiff Consulting Services, Argentina: Market Review, October 1998

*Including Construction Loans

**Estimated

There are two primary sources for housing finance in Argentina: Commercial banks and programs funded by the Banco Hipotecario (BH). In addition, a government run program, FONAVI, provides subsidized housing to the lowest income sectors. Finally, there are an indeterminate number of investment clubs known as Circulo Cerrados (known in Mexico as Autofinanciamientos) which provide housing loans through informal contract savings programs.

The Argentine mortgage market is dominated by the Banco Hipotecario (BH). For the past five years, BH has funded 40% of all residential mortgages. The BH was originally started as a government-housing bank active in both the construction and financing of residential dwellings. The charter of BH was changed in 1990 to that of a second tier housing bank, purchasing mortgages from banks on recourse and issuing bonds in the domestic and international capital markets. After its privatization in 1997, BH shut down its conduit activities and re-entered the market through a retail branch network. In 2000 it re-activated its conduit network.

As of December 1999, the BH loan portfolio totaled US$ 4.6 billion. In 1999 BH funded approximately $ 425 million in total mortgages. The BH mortgage portfolio consists of both fixed and adjustable mortgages denominated in both Pesos and Dollars. BH mainly provides financing for the purchase of residential housing. However, BH, in conjunction with other private and public sector banks, also provides lines of credit to residential builders.

BH provides various methods for the financing of housing. These include Certificados de Ahorro Popular para la Vivienda (CAPVs) and Titulos de Ahorro y Vivienda (TIAVIs). The CAPVs are a type of contract savings program and are denominated in Dollars. The savings account has a term of two years and an interest rate of LIBOR plus 2%. After maturity the holder of a CAPV can receive a mortgage. The maximum amount of the mortgage is 2.5 times the final value of the CAPV with a maximum loan amount of US$ 10,000. The term of the loan can be between 5 and 15 years and carries an interest rate of LIBOR plus 8%. TIAVIs are bullet bonds issued by the BH in Dollars, with an interest rate of LIBOR plus 2%. The bonds are payable quarterly for a period of four years. The funds obtained from the TIAVI are used to finance the purchase of finished housing construction.

In July 1997, the Argentine Congress passed a Privatization Law, which transformed the bank into an incorporated company. BH's privatization took place in March 1999, through an initial public offering in which the government sold 42 million shares (46% of BH). A group of related real estate companies controlled by the George Soros Group gained a 14.5% stake in BH and call options to acquire an additional 13%. Additional shareholders include various construction companies with 5%, employees with 5%, and other private investors. It is expected that the government will sell the remainder of its shares in 2000.

The commercial banking sector has undergone a process of consolidation. At the beginning of the 1980s there were about 500 banks in Argentina. As of June 1998, there were 132 banks: 19 state-owned, provincial and municipal banks and 113 private banks.

Because of high consumer demand the commercial banks have increased their respective levels of mortgage lending. Commercial banks provide almost 60% of the finance for residential housing. They originate approximately US$ 1 billion per year and currently hold US$ 6.5 billion in portfolio. Despite the increase in mortgage lending, most commercial banks run relatively less efficient operations than do banks in the United States; this translates into high spreads (e.g., the average spread between 30 day deposits and 10 year Pesos denominated mortgages in 1997 was 5.6%).

The largest private mortgage lenders are Banco Galicia, Banco Río de la Plata, Banco Francés Bansud, Banco Crédito Argentino, and Banco Roberts and have a combined market share in the residential mortgage market of over 50%.

The majority of mortgage lending is in US$. As of June 1999, 65% of outstanding mortgage portfolios were denominated in US$ with the remainder denominated in Pesos. US$ denominated mortgages usually have a 10-year term; interest rates on US$ mortgages averaged 11% by the end of the second quarter 1998.

Other mortgage products have also been introduced, such as the "12/16" mortgage which has a term of 12 years and a maximum LTV of 80%. Adjustable rate mortgages are also available and are denominated in both Pesos and Dollars. Loans are fully amortizing mortgages subject to prepayment in full without penalty, although penalties apply to some partial prepayments.

LTVs have gradually increased since the early 1990's. In 1996 LTVs typically ranged from 50% to 75%. Currently, commercial banks will lend up to 90% LTV providing the credit is of superior quality. The average loan size is approximately US$ 60,000. However, most commercial banks will lend as low as US$ 1,000.

Year	Money Market Pesos	Money Market US$	180 Day Residential Construction Loan (US$)	Deposit 30 Day Rate	10 Year Peso Mortgage Loan	Reviewable rate saving & commercial banks
1990				1517.88%		
1991	71.33%			61.68%		
1992	15.11%			16.78%		
1993	6.31%			11.34%		
1994	7.66%	6.20%		8.08%	16.18%	10.06%
1995	9.46%	8.40%		11.90%	16.84%	17.85%
1996	6.23%	5.91%	15.45%	9.50%	13.00%	10.51%
1997	5.85%	5.99%	14.84%	6.20%	11.84%	9.24%
1998				7.56%	12.38%	10.64%

Source: Cardiff Consulting Services, Argentina: Market Review, October 1998

Interest rates have come down considerably since the early 1990s. This has helped fuel the increased demand for mortgage finance. Peso denominated mortgages typically carry a higher interest rate than do US$ denominated mortgages; as of March 1998 the spread between the two was approximately 1.38%.

The secondary mortgage market is small, but it is continuing to develop. Aided by changes in securities and banking laws, BH has completed four securitizations since 1997. The first was a US$ 93 million issue with a 76:24 blend of variable rate and fixed rate mortgage respectively. The second issue was US$ 106 million with at 47:53 blend of variable and fixed rate mortgages. The senior securities achieved an investment grade rating in the US (higher than the Argentine sovereign rating at the time of issue) through the use of senior subordination and reserve funds for credit enhancement. BH's last securitization took place in March of 2000. The principle amount of the securitization was US$ 195 million with both variable and fixed rate securities. The average rate was 10.59%. It is anticipated that BH will continue to securitize, thus increasing the availability of funds in the mortgage market.

Policy Developments

Fondo Nacional de la Vivienda (FONAVI) provides housing and housing finance to low income families. It uses funds obtained through a payroll tax to fund subsidized housing. FONAVI produces approximately 25,000 homes per year.

In recent years the Argentine legal system has been revised in order to facilitate the development of the primary mortgage market. Laws 19.550 and 24.441 are of particular relevance.
Law number 19.550 article 118 stipulates that publicly held corporations, limited partnerships, civil associations, cooperatives and corporations may issue debt securities in Pesos or any other foreign currency and secured by mortgages and other financial instruments.

Law 24.441 specifically addresses the issues of securitization. It provides, among other things, the ability to foreclose on delinquent property, allows the reassignment of mortgages without the authorization of the mortgagor, reduction in notario fees, and a format for standardizing loans.

In mid-2000, BH and the International Finance Corporation announced the creation of the SCCH, a conduit company chartered to purchase mortgage loans and issue mortgage-backed securities from BH and other banks.

Sources and References

1. Banco de Galicia - www.bancogalicia.com.ar
2. Banco Hipotecario
3. Banco Central de la República Argentina (BCRA) http://www.bcra.gov.ar/
4. Secretaría de Hacienda (Ministry of Finance) Inversiones y Representaciones S.A. (IRSA) (Residential and Commercial Real Estate Developer) www.irsa.com.ar
5. DEBA Memoria Anual 1993-1996. Asociacion de Bancos Argentinos.
6. Ambito Financiero, Argentina. Various issues
7. Banco Hipotecario Annual Report 1999
8. Boletín Estadístico, various months, Banco Central de la República Argentina.
9. Barron's "In Business Again: Don't cry for Argentina's property market" March 30, 1998.
10. Duff & Phelps Credit Rating Co., BH I Mortgage Fund, Residential Mortgage-Backed New Financing Report, 1996
11. El Cronista, Argentina. Various issues
12. Memoria Anual 1997, Banco Central de la Repœblica Argentina.
13. Prensa Económica, Argentina. Various months.

BRAZIL

Economic Background

				Real	US$
Year	Exchange Rate Real/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990			2947.73%		
1991			432.79%		
1992		0.14	951.65%		
1993	0.12	2.77	1927.98%	14,097	117,476
1994	0.85	60.24	2075.89%	349,205	410,829
1995	0.97	100.00	66.01%	646,192	666,177
1996	1.04	115.76	15.76%	778,887	748,930
1997	1.12	123.78	6.93%	864,111	771,528
1998	1.21	127.74	3.20%	899,814	743,648
1999	1.79	133.95	4.86%	960,858	536,792

Source: IMF

Prior to the institution of the *RealPlan* in 1994, uncontrollable inflation rates had disrupted economic activity and discouraged foreign investment. Since 1994, tight monetary policy has brought inflation to more controllable levels, with consumer prices increasing by only 3% in 1998, as compared to more than 2000% in 1994. Inflation increased somewhat in 1999, up to 4.8%.

Brazil’s economic performance during 1998 was strongly impacted by its attempts to insulate the country from the external economic problems in Asia and Russia. In an effort to preserve investor confidence, interest rates in Brazil were doubled to approximately 43% in October 1997. The Real was subsequently devalued stimulating export growth and the economy began to recover in 1999.

Brazil has experienced a decreasing trend in economic growth and an increase in unemployment (the unemployment rate jumped to 7.8% by the first half of 1998.) This decreasing trend was consistent throughout much of the past ten years due to inflation and a tightened credit sector. Resulting from the hyperinflation of the early 1990s, it is very difficult to compare GDP figures from earlier periods. However, it is estimated that GDP growth slowed from 5.7% in 1994 to 3.0% in 1997.

Housing Market

Brazil's population of 160 million is the largest in Latin America and the sixth largest in the world. Demand for housing is particularly high; some estimates put the housing deficit at over 5 million units with additional requirements at 1 million units per year.

According to the 1991 Population Census, approximately 70% of all residential homes are owner-occupied, while 16% are rented, 13% are lent, and 1% are classified as other. Additionally, most residential units are located in high rise buildings called vertical condominiums. The most common size of living space consists of 2 bedrooms, a living room, bath and kitchen.

In March 1999, national construction costs were at R$ 287.75 per square meter, reflecting a 1.73% increase since January of that year. The total increase in construction costs for 1998 was only 1.56%. Despite increases in construction costs, housing prices are generally decreasing, with the exception of prices in Sao Paulo (which are the highest in the country). From April 1998 to April 1999, the average price per square meter in the rest of the country decreased by 26%. Urbanization is increasing at a rapid rate, resulting in an increased demand for cost-effective, low-income housing.

Mortgage Market

Since the 1960s Brazil's housing finance system has been based on the legal and regulatory framework of the Sistema Financeiro Habitaçao (SFH). The SFH helped provide housing finance by channeling funds from special savings programs and the national worker’s compensation/unemployment fund, the Fundo de Garantia do Tempo de Servico (FGTS), to long term financing for the purchase or construction of residential housing. The current outstanding balance of loans originated through this system is approximately US$ 36.1 billion or only 0.5% of GDP.

Under the SFH system, deposit taking institutions are required by law to invest at least 70% of their SFH deposits (basic passbook-type savings deposits) in housing loans with a 12% real rate ceiling on the interest rate. As of February 1999 savings deposits that were required to be invested in housing totaled over 26% of the total deposits held by Brazilian financial institutions. Of the remaining 30% of deposits, 15% is placed on reserve at the Central Bank and 15% can be invested in any legal investment- including housing - with no interest rate limits. It was indicated by a number of banks that very little of the remaining 15% is actually invested in residential housing.

The deposit rate for the SFH is set by the government, and as of spring 1999, it was 6% per year plus inflation. This results in a 6% real rate spread between SFH mortgages and deposits. However, none of the top banks invested more that the required 70% in mortgages. Mortgages are originated only as necessary to maintain the 70% investment ratio (and to avoid a large penalty.)

After almost collapsing in the late 1980s and early 1990s, the Brazilian residential housing finance sector has managed to survive but has not grown appreciably. While the number of residential units financed increased from 62,794 in 1995 to 85,487 in 1997, in nominal terms, the total R$ value of originations declined 22%. This is due, in large part to the hesitancy of commercial banks to originate any more than the required amount of savings system loans. It is also due to commercial banks severely rationing credit for non-subsidized mortgages to only the highest wage earners (approximately the top 5% of the income distribution). Official statistics on lending to this sector were unavailable, although estimates based on Central Bank estimates indicate an outstanding balance of approximately US$ 3 billion for non-subsidized residential loans.

Mortgage Originations- System Total

	Originations (R$Million)	Originations (US$Million)	Number of Units Financed
1995	1,877	1,804	62,794
1996	1,463	1,306	96,787
1997	1,724	1,425	85,487
1998	2,095	1,211	-

Source: Central Bank

The largest originator in the country is Caixa Econômica Federal. It originates mortgages through a number of different programs, the largest of which utilizes a 12% rate mortgage indexed to the TR. It funds its mortgage operations with the resources of the worker's unemployment fund, the Fundo de Garantia do Tempo de Serviço (FGTS) and SFH deposits. The FGTS was established in 1966, and it was designed to provide insurance in the case of unemployment. The fund is capitalized through a mandatory 8% contribution made by an employer on behalf of its employees. The largest commercial mortgage originator is Bradesco. Bradesco is also the largest commercial bank in Latin America. In 1998 it had total assets of US$ 40.9 billion.

While it is still being driven mainly by government sponsored or mandated programs, significant changes are taking place in the sector. In particular, Brazil is now in the process of replacing the old SFH with a new system, the Sistema Financeiro Imobiliário (SFI). While many of the SFH programs will be maintained, the SFI will provide legal mechanisms that will allow lenders to rapidly foreclose on delinquent mortgages. The SFI also provides the legal and regulatory framework for allowing the securitization of mortgages.

Originations made between 1968 and 1994 consisted of dual-index (DIM) mortgages. DIMs were designed to protect a borrower against payment shock in a volatile macroeconomic environment while maintaining inflation adjusted return for the lender. DIMs have been given partial responsibility for the Brazilian bank crises. These loans were replaced by price-level adjusted mortgage (PLAM) in 1994, which is set at a fixed interest rate and then indexed on a monthly basis to the TR index.

The average loan size for housing is approximately R$ 60 thousand, and banks require borrowers to earn a minimum of R$ 2,000 – R$ 2,500 per month before they can be eligible for a loan. This income range eliminates over 75% of the population from lending programs.

In 1996, the mortgage debt to GDP ratio was 7.7%, but the mortgage debt outstanding increased from R$ 46.5 million to R$ 59.7 million during the same period due to negative amortization. For example, originations decreased from R$ 1,877 million in 1995 to R$ 1,463 million in 1996. Non-performing loans are a very significant aspect of the Brazilian mortgage portfolios. As of February of 1999, the housing finance sector possessed R$ 4.5 billion in defaulted mortgages.

Residential Mortgage Market (Millions)

				US$	
Year	Mortgage Debt Outstanding	New Originations	Outstanding Mortgage Debt/GDP	Mortgage Debt Outstanding	New Originations
1994	46,499.00			54,704.71	
1995	56,184.00	1,877.00	13.30%	57,921.65	1,935.05
1996	59,696.00	1,463.00	7.70%	57,400.00	1,406.73
1997	62,413.00	1,724.00	7.20%	55,725.89	1,539.29
1998	67,066.00	2,095.00	7.40%	55,426.45	1,731.40
1999	N/A	N/A	N/A	N/A	N/A

Source: IDB

Policy Developments

The IMF created a 3-year stand-by agreement for SDR 13 billion, which was approved on November 13, 1998, and provided the nation with much needed credibility. The agreement was revised in March of 1999, leaving the country with a goal of obtaining a 3.1% surplus GDP in 1999, 3.25% surplus GDP in 2000, and 3.35% surplus GDP by 2001. These goals were necessary to lower the net public sector debt, which had jumped to approximately 53% of GDP in January of 1999, to 46% of GDP by the end of 2001.

The Companhia Brasileira de Securitização (CIBRASEC) was created in 1997 to become the catalyst agent of the mortgage market in Brazil. The CIBRASEC concept is based on the successful model of the securitization companies in the US such as Fannie Mae. CIBRASEC, a private company will be the main agent of the secondary market for real estate receivables in Brazil.

Sources and References

1. IDB Country Assessment: Brazil, by James D. Dinsmoor (Country Economist) http://www.iadb.org/regions/re1/sep/br/br-sep.htm
2. CIA World Fact Book – September 1999
3. World Bank, www.worldbank.org
4. Bernstein, Steven A. "Real Estate Finance in Brazil: The State of the Market 1999." Prepared for the Mortgage Bankers Association of America, June 1999
5. Pinto-Lima, L., "Mortgage Lending in Brazil", Housing Finance International, June 1998

Contacts

1. ABECIP - Associação Brasileira das Entidades de Crédito Imobiliário e Poupança
   Avenida Paulista, 1439 - sobreloja

Cep - 01311-200 São Paulo - SP
Tel: (55 011) 285-4855
Fax: (55 011) 284-8366
Email: abecip@abecip.org.br

2. CIBRASEC
Brazilian Securitization Company
Tel: (55 011) 3266-3223
Fax: (55 011) 3266-3229
Email: www.cibrasec.com.br

CHILE

Economic Background

Year	Exchange Rate Pesos /US$	Consumer Price Index	Change In Consumer Prices	Pesos Nominal GDP (Millions)	US$ Nominal GDP (Millions)
1990	336.86	52.32	26.03%	9,245,500	27,446.12
1991	374.87	63.72	21.78%	12,100,500	32,279.19
1992	382.33	73.55	15.43%	15,185,400	39,718.04
1993	431.04	82.91	12.73%	17,974,900	41,701.23
1994	404.09	92.39	11.44%	21,395,300	52,946.87
1995	407.13	100.00	8.24%	25,875,700	63,556.36
1996	424.97	107.36	7.36%	28,268,400	66,518.58
1997	439.81	113.95	6.14%	31,774,000	72,244.83
1998	473.77	119.77	5.11%	33,577,700	70,873.42
1999	530.07	123.76	3.34%	34,326,700	64,758.81

Source: IMF, IDB

Chile experienced a steady increase in GDP throughout 1991-97, falling only with the international economic crises of 1998. With inflation decreasing, the government has made efforts to develop foreign export markets. The Chilean economic goal of 5% economic growth depends on world prices, continued foreign investment, and the government’s ability to maintain favorable financial accounts. Chile’s economic outlook is positive. Recent political changes in the government have not had a substantial impact on the Chilean economic environment.

From 1991 to 1997, Chile experienced an average 7% growth in GDP, with the service industry as its largest contributor. This indicates an increase in productivity, which in turn means more employment. In 1990, the unemployment rate was at 8.1%, and was approximately 6.1% by the end of the third quarter 1998. Inflation in Chile has seen a decreasing trend, and the rate during 1999 was the lowest in 60 years. The average annual inflation rate by 1998 was 5.11%, compared to 26.03% annual inflation during 1990.

Housing Market

The housing market has seen improvement in the last six years. The average household size has decreased to 3.7 individuals per family unit, compared to the ratio of 4.1 in 1992. The population in Chile has gone from 13.1% in 1990 to 14.8% in 1998, creating a significant demand for new homes. Chile’s inability to meet demand with adequate funding has resulted in the existence of the country’s housing shortage.

There were approximately 141,000 housing starts in 1996, and it is estimated that over the next 25 years, Chile will need 1.8 million new homes. According to government estimates, in order to meet the market pressures resulting from the new rates of household size and to prevent the expansion of the housing shortage, approximately 82,000 new dwellings will need to be developed each year. This presents a potentially favorable mortgage market, with approximately half of the total private housing market (without subsidies) centered in Santiago, the nation's capital. However, over the last year new Chilean housing construction has been plagued by the adverse effects of a recession. To reduce the large numbers of unoccupied new homes already on the market, the Chilean government has introduced tax incentive plans to motivate new buyers.

Mortgage Market

Millions Pesos				US$ (Millions)	
Year	Mortgage Debt Outstanding	New Originations	Outstanding Mortgage Debt/GDP	Mortgage Debt Outstanding	New Originations
1990	601,631.96		6.51%	1,786.00	
1991	826,963.22	133,453.72	6.83%	2,206.00	356.00
1992	1,065,553.71	182,753.74	7.02%	2,787.00	478.00
1993	1,435,794.24	256,468.80	7.99%	3,331.00	595.00
1994	2,055,201.74	132,541.52	9.61%	5,086.00	328.00
1995	2,834,846.19	123,767.52	10.96%	6,963.00	304.00
1996	2,987,964.07	122,816.33	10.57%	7,031.00	289.00
1997	3,359,708.59	127,984.71	10.57%	7,639.00	291.00

Source: Pardo

The Chilean housing finance market is the maturest market in Latin America. Long term mortgage financing for terms up to 30 years was reintroduced to the Chilean economy in the 1970s after the attempts of failed savings and loans to utilize inflation-indexed financing. Since the early 1980s, revenues from the fully funded private pension plans and other institutional investors have contributed to the ability of the capital market to attract mortgage backed securities.

The mortgage market in Chile is fairly small, with the 1997 outstanding mortgage debt to GDP ratio at approximately 11%. New originations in 1997 were slightly under US$ 300 million, while outstanding mortgages alone were estimated at US$ 7.6 billion during the same period. The average outstanding unsubsidized loan balance was US$ 21,900 at the beginning of 1997.

The standard instrument in Chile is an inflation indexed fixed rate mortgage. The loan has a fixed rate of interest with the mortgage balance and hence payment indexed for inflation. Rates have dropped nearly 1.5 points in the past decade, down to around 8% in 1999. Rates did spike up after the Brazilian devaluation to around 11% in 1998.

There are two types of mortgage finance instruments used in Chile, the Mortgage Letter or Mortgage Bond and the Mortgage Loan or Endorsable Mortgage Credits (EMC). With a mortgage letter, a bank takes a mortgage for a housing acquisition in a given amount and term, issues certificates (or letters), which are securities offered to the investors of the property at a discount rate. The mortgage loan is a mortgage backed security in the form of money, not certificates, and can be pooled and converted into assets with great liquidity and low risk.

The banking system has been the main originator of housing loans, mostly financed by the sale of their long-term mortgage-backed bonds in the Santiago Stock Exchange. Representing the liabilities of the issuing bank, Chile's mortgage lending backed by mortgage bonds equaled US$ 6.2 billion at the end of 1997. The face value of the bond can be issued for up to 75% of the property given as collateral, and monthly payments may not exceed 25% of the borrower's income. These financing tools can be utilized for general financing or for housing financing purposes.

Mortgage Bonds —or "Letras de Crédito", as they are called in Chile's Banking Law— are the most traditional tools for mortgage financing. Banks issue bonds on behalf of borrowers, which are sold on the Stock Exchange at market value (similar to the Danish system). Capital for mortgage bond type financing comes mostly from pension funds with 49% of the total mortgage bond holdings. Banks and life insurance companies make up another 47%. Less than 1% comes from foreign investment funds.

Newer to Chile's financial market are the Endorsable Mortgage Credits, EMC for short – the "mutuo hipotecario endosable" in Spanish. These mortgage instruments can be either issued by banks or mortgage credit companies. The maximum LTV ratio allowed for EMC issuance is equal to 80%, and the payments may not exceed 30% of the borrower's income. EMC are generally used for commercial real estate and higher priced housing. The total of EMC stock reached US$ 2.42 billion at the end of 1997. Across the market EMC are not the popular choice for financing. EMC are not considered securities, but they are intended to be sold to secondary market conduits that would then pool and securitize them. At the end of 1997 investors other than the originators held 37.5% of EMC balances. A market has developed, and the securitization of pooled EMC is an undeveloped business opportunity in the Chilean market.

A revised securitization law was passed in August 1999 which eased some of the restrictions present in the prior law. According to Moody's, there are still significant obstacles to securitization in general and to a bank's ability to securitize its own assets in particular.

Policy Developments

The government continues to be extremely active in (subsidized) housing finance. In 1997, the private sector originated 79,000 (58%) of the new loans, while the public sector originated 58,000 (42%) of new loans. Two thirds of the sector is subsidized with the state providing up-front grants for house purchases. The state-owned Banco del Estado is Chile's largest loan originator, but its market share decreased from 40% in 1996 to 36% in 1997. Competition in Chile's housing finance market has been the cause for this reduced market share. Competition has in turn resulted in lower financing costs, but the costs are still higher than other developed markets.

Sources and References

13. IMF Statistics, 2000

14. IDB Country Assessment: Chile, by Roberto Garcia Lopez (Country Economist) http://www.iadb.org/regions/re1/sep/ch/ch-sep.htm
15. World Bank, www.worldbank.org
16. El Banco Central de Chile
17. http://www.bcentral.cl/Indicadores/Excel/tasabcch.xls
18. CIA World Fact Book, 1999
19. Garcia, Pedro D. "Real Investment Opportunities in Chile." December 1999
20. Moodys, "International Asset-Backed Securities Markets: The Expansion Continues", February 2000
21. Pardo, Claudio A."Housing Financing in Chile." Housing Finance International, September 1999

COLOMBIA

Economic Background

Year	Exchange Rate Peso /US$	Consumer Price Index	Change In Consumer Prices	Peso Nominal GDP (Billions)	US$ Nominal GDP (Billions)
1990	568.73	32.87	29.14%	20,228	35.57
1991	706.86	42.86	30.40%	26,107	36.93
1992	811.77	54.45	27.03%	33,515	41.29
1993	917.33	66.76	22.61%	43,898	47.85
1994	831.27	82.67	23.84%	67,533	81.24
1995	987.65	100.00	20.96%	84,439	85.49
1996	1,005.33	120.24	20.24%	100,711	100.18
1997	1,293.58	142.92	18.86%	121,708	94.09
1998	1,507.52	172.01	20.35%	142,543	94.55
1999	1,873.77	191.30	11.21%	152,195	81.22

Source: IMF, IDB; *Bank of Republic of Colombia 1999 Nominal GDP est

Columbia has developed a reputation for being one of Latin America's most stable economies attributed to its conservative economic policies. In the 1980s when most of the other economies in Latin America were collapsing, Columbia managed their external debt with no defaults or renegotiations. More recently, the Russian and Asian market crisis have embedded their mark on Columbia's economy.

The GDP growth rate in 1998 was a mere 0.2%, the lowest growth rate in 50 years. This can be attributed to a combination of low world oil prices, reduced export demand, guerrilla violence, the thriving illegal drug industry, and a loss of investment flows. The Central Bank was forced to increase interest rates and the monetary policy was tightened with hopes of defending the Peso against increasing deficits. The increasing political and economic uncertainties have slowed the economy, as well as the government's ability to implement its social and economic agenda. The nation went from having a fiscal surplus of 2.5 % in 1994, to a fiscal deficit of 2.4% by 1999. In addition to this fiscal deficit in GDP, government was forced to declare emergency measures to prevent a banking crisis.

Inflation remains high and consistent. In 1991, inflation had reached more than 30%, decreasing to 18.86% by 1997, and again experiencing an increase to 20.35% by 1998. The decade ended with a significant decrease in inflation with rates dropping to 11.21% in 1999. Meanwhile, the unemployment rate peaked to nearly 20% (of a 16.8 million-labor force), the highest in decades. Interest rates have been high in the nation's attempts to defend the Pesos and avoid a banking crisis similar to those experienced throughout the region.

Interest Rates

Year	Interbank Money Market	Deposit Rate	Mortgage Rates
1990		36.44%	42.25%
1991		37.23%	47.13%
1992		26.67%	37.28%
1993		25.84%	35.81%
1994		29.42%	40.47%
1995	22.40%	32.34%	42.72%
1996	28.37%	31.15%	41.99%
1997	23.83%	24.13%	34.22%
1998	35.00%	32.58%	42.24%

Source: IMF, IDB

A national development plan, known as "el Salto Social" or the "Social Leap", has been initiated. The program focuses on four areas: 1) social development, 2) increasing economic competitiveness, 3) environment and decentralization, and 4) institutional strengthening. Some key objectives of the plan are to create 1.6 million new jobs and generate an economic growth rate of 5.3% annually. To implement their plan the Colombian government has initiated steps such as devaluation of the currency, creation of lines of credit for financial institutions, and projects to enable refinancing. Also, loan assistance has been granted from the Inter American Bank, World Bank, and investments from the International Finance Corporation. An initial, favorable response to their plan resulted in a drop in the market interest rate to near 20% in 1995, but it returned to an escalated 35% in 1998. Also to further develop the secondary mortgage market, securitization companies have been anticipated in the development of a legal framework that would enable them to purchase mortgages from originators and convert them into securities.

Housing Market

The majority of the Colombian housing market is concentrated in urban areas. In 1993, census statistics estimated that the existing housing stock was 6.9 million units. In 1998 it was estimated that of the approximate 7.1 million homes within the country, almost 5.4 million exist in urban areas. The population in 1998 was 40.83 million. According to the National Planning Department, the number of households will double by the year 2020. Therefore, over the next 20 years it will be necessary to build more than 4 million new residences.

Colombia's social housing stock is made up of dwellings priced up to 2,300 UPACs (Unit of Constant Purchasing Power), or approximately US$ 20,250. These dwellings are subsidized through government supported funds totaling around US$ 2000 each. Mortgage originators are required to allocate 20% of their total funding to social housing with a 20% down payment coming from the borrower. Current estimates place the total, social housing portfolio at US$ 1.8 billion with an average, social housing loan size of US$ 6,000 and monthly payment of approximately US$ 93.

Mortgage Market

The Colombian home finance industry was created in 1972 with the exclusive purpose of acquiring savings from the public and originating mortgages in UPAC (Unit of Constant Purchasing Power) instead of the national currency (Peso). The UPAC mortgage is a type of price-level adjusted mortgage in which there is a fixed rate of interest and a periodic adjustment of the mortgage balance for inflation as measured by UPAC. One of the characteristics of the Colombian UPAC system is that it allows for small initial monthly payments, a key factor in developing countries that have low family incomes. The borrower is not required to pay the nominal rate (including expected inflation) of the loan in the early years. Rather the balance is adjusted to reflect UPAC variation. The basic idea is to maintain the value of the unpaid balance of the mortgage in terms of constant purchasing power. Under the UPAC system, more than 1 million mortgages have been originated, with approximately 800,000 outstanding, for a value of more than $9 billion.

There are several types of lending institutions in Colombia. Commercial banks and mortgage companies are the largest contributors to mortgage financing with a 40% share of the market (DAVIVIENDA is the sole largest originator). Until 1990 only the savings and housing companies (CAVs) could issue inflation indexed deposits and loans. This facilitated the savings and housing corporations to build a strong capital foundation for which to fund mortgage activity. In 1990 the legal basis for specialization was eliminated as were the privileges given to intermediaries like the CAVs. These measures were aimed at increasing competition among financial intermediaries. As a result of the change in the regulatory framework, many CAVs merged with bank holding companies or converted into commercial banks.

When the financial system was opened up to competition, the UPAC formula had to be changed to enhance the mortgage industry’s ability to compete for savings deposits. The UPAC was linked to a market interest rate by defining it as 74% of the DTF (name given to the CD rate). In this way, increases in the market rate would be reflected both in asset and liability yields. The system worked well for a number of years, but in the financial markets crisis of 1997-98, exaggerated increases in market rates of interest were reflected in mortgage balances and monthly installments. These increases exceeded, in many cases, the diminished capacity of borrowers affected by unemployment and the economic crisis. This produced a deterioration of credit quality and greatly increased the number of foreclosures and repossessions.

Although the government has made progress in reducing interest rates, a decision of the Constitutional Court, reflecting political pressure, ordered the Central Bank to change the UPAC formula and once again link it to inflation without reference to the level of the market interest rate. The government has received full power from the Congress to introduce necessary adjustments to ensure stability of the mortgage market. The solutions currently under analysis include expansion of the secondary mortgage market, support of the government in managing financial risk, and introduction of new long-term funding instruments such as mortgage bonds (letras hipotecarias).

Real estate finance in Colombia also includes long-term mortgages and special loans for builders, called construction loans. These construction loans are short-term credit lines granted to provide the liquidity needed to finance a construction project. The loan duration for a construction loan is calculated to the construction time plus the sales period. These construction loans are not typically paid off in cash, however. They are generally substituted with long-term mortgages granted to the buyers of the property.

Combined exploration efforts of the Colombian Government and Davivienda resulted in the first mortgage securitization transaction in 1994. Duff & Phelps of Colombia had given a AAA rating to this initial deal that was also honored as the first securitization in Latin America. Since Davivienda's first transaction, other Colombian savings and housing corporations have been introduced to the secondary mortgage market. The current total of Colombian mortgage backed securities in the market equal US$ 308 million. The Colombian mortgage industry has only begun to realize the potential of the MBS market. Only 7% of the total mortgage portfolio are represented by securitized mortgages. Pension funds have been the main purchasers of MBS. A private pension fund system was created in Columbia in 1994. Eight pension funds currently manage a $ 3.5 billion portfolio with great growth potential.

Sources and References

1. IDB Country Assessment: Colombia, by Carlos Oliva (Country Economist) http://www.iadb.org/regions/re3/sep/co-sep.htm
2. World Bank, www.worldbank.org
3. CIA World Fact Book, 1999
4. Forero, Efrain F. "The Home Mortgage Industry in Colombia." Housing Finance International, September 1999
5. Gomez, Guillermo, "The Mortgage Business in Colombia", Housing Finance International, December 1996
6. IMF: International Financial Statistics, 2000
7. Yahoo Int'l Finance Center: Economist Intelligence Unit Briefs. August 15 2000. " Court Upholds Controversial New Mortgage System." Available: Internet. September 11, 2000. http://biz.yahoo.com/ifc/co/news/81500-1.html

Ecuador

Economic Background

Year	Exchange Rate Sucres/US$	Consumer Price Index	Change In Consumer Prices	Sucres Nominal GDP (Billions)	US$ Nominal GDP (Billions)
1990	767.75	19.17	-32.70%	8,204	10.69
1991	1,046.25	28.53	48.80%	12,296	11.75
1992	1,533.96	44.04	54.37%	19,414	12.66
1993	1,919.11	63.85	44.97%	27,451	14.30
1994	2,196.72	81.38	27.45%	36,478	16.61
1995	2,564.49	100.00	22.88%	46,005	17.94
1996	3,189.46	124.37	24.37%	60,727	19.04
1997	3,998.26	162.49	30.65%	79,040	19.77
1998	5,446.57	221.14	36.10%	107,421	19.72
1999	11,786.80	336.67	52.24%	161,350	13.69

Source: IMF; IDBSTA

The prosperity and growth that was associated with Ecuador in the mid 1990's transitioned into a serious economic dilemma in the latter half of the decade. In 1998, petrochemical production and agriculture, two industries that typically make up 25% of the country's GDP and 95% of total exports, were in turmoil. Plunging oil prices and the devastating weather from El Niño caused a 21.3% or US$ 500M reduction in exports. This shortfall, in combination with a weakened banking sector, contributed to mounting pressure for the government to shore up the faltering Ecuadorian economy.

Even with efforts in reorganizing state owned sectors (electricity, petroleum, and telecommunications), reducing deficit spending, and fostering free trade, the government could not resolve some of the leading economic issues stemming from bureaucratic missteps. By the beginning of 1999, Ecuador was suffering from the consequences of multiple interim governments. The fiscal deficit ballooned 7%, and six of the country's major banks were in the hands of regulators. Austerity measures for controlling inflation eventually succumbed to the increased economic volatility and created a 36% devaluation of the sucre vis-à-vis the US Dollar. These problems thrusted Ecuador further into political crisis and lead to the eventual default on its international debt in September 1999.

Housing Market

In 1995, 61% of the 1.4M available homesteads were owner occupied; 26% were rentals, and 13% were held in other forms of tenure. Ecuador's severe housing shortage has been acerbated by the number of natural disasters in the mid to late 1990's. It is estimated that nationally, almost 1.7M dwellings are needed with most of the construction focused in the hard-struck oceanic and agrarian communities. Given that 37% of the population (mostly low-income households) currently reside in these rural areas, the demographics for rebuilding Ecuador's housing stock are not easily answered.

Urban migration is relieving some of the stresses surrounding housing in rural Ecuador. Most of the current construction is centered in urban communities. Of 1997 residential construction, 46% were single family homes, 17% were 2 to 4 unit dwellings, and 37% were multifamily.

Homes By Construction Type

	# Housing
Total	1,360,471
Rental	356,250
Antichresis	3,853
Anticresis-Arriendo	3,030
Own Paid off	722,212
Own Borrow	108,013
Gratuitous	145,789
Received through services	21,159
Other	165

INEC -Homes 1995

Mortgage Market

Approximately 70% of all households in Ecuador are built without formal financing. Of those that do carry some form of borrowing, approximately ¾ of the debt is in the range of US$ 3,800 and US$ 11,500. In 1997 the country's total outstanding mortgages stood between US$ 300M and US$ 400M with demand steadily growing.

Traditionally, Ecuador has had to rely on public and private institutions to provide housing finance for the population. At the end of 1996, 250 institutions comprised the banking industry with approximately the same amount of non-standardized mortgage products available to the consumer. Given the nature of Ecuador's under-developed equity markets and economic condition, financial institutions typically seek to maximize liquidity through covering only those mortgage products that can round out their existing portfolios.

As a supplement to formal private sector mortgage lending, the Ecuadorian government chartered Banco Ecuatoriano de la Vivenda (BEV) in 1961 for the purpose of providing housing for low-income families. Since its inception, BEV has become the country's largest originator. BEV offers mortgages, grants, direct subsidies, and financing for renovation and construction. In 1998, over half of BEV's assets, or US$ 137M, were in the form of outstanding loans with a delinquency rate of 4.1%. Given this, Banco Ecuatoriano ranks 10^{th} among Ecuador's top financial institutions.

In 1997, Banco Ecuatoriano, along with 26 Ecuadorian institutions, created Compañia de Titularizacion Hipotecaria (CTH) as a conduit for secondary mortgage lending. This organization, fashioned after the system in the United States, is tasked with creating liquidity in the primary mortgage market in order to give greater public access to housing finance. It has created a standardized seller/servicer guide, which assists originators in determining which conforming loans are permissible for resale. The products CTH will accept are very diverse. It has designated that it will purchase loans valued in numerous common currencies (ESS, US$, CVU), be geographically heterogeneous regarding originators and borrowers, and support all housing types from low income to luxury to re-construction.

Compañia de Titularizacion Hipotecaria has started out slowly. It has begun by purchasing and retaining loans with its core capital in order to determine the characteristics of mortgages within the industry. Future expectations are that the corporation will have purchased over US$ 200M in loans by 2001 and be in the initial stages of offering its first mortgage backed security. In securitizing these assets, CTH believes that it should first target the domestic equity markets – in particular the investors from the government's privatization fund, Fondo de Solidaridad, and the social security fund Instituto Ecuatoriano de Seguridad Social (IESS). In doing this, they believe that there will be a stronger resolution by the government to support and guarantee these securities.

Policy Developments

The ministry of Urban Development and Housing (MIDUVI) dominates the development of policy surrounding low income housing in Ecuador. In 1995, MIDUVI created a guarantee program through the Housing Bank that provided below market rate capital for residential construction and mortgages. This program was structured to relieve liquidity issues that institutions were having in regards to utilizing short-term deposits to fund long-term borrowing. By funding 75% of the outstanding loan balance, MIDUVI was indirectly supporting institutional participation in mortgage lending. Although initial results from the guarantee program looked promising, ultimately, adoption of it was not widespread.

Recently, the changing political climate in Ecuador has created an alternative to indirect financing through the Incentives for Housing (SIV) program. In 1998 MIDUVI developed a system of one-time, non-reimbursable grants directly payable to the borrower. The focus of these grants is to promote savings and real estate investment between lower and middle class Ecuadorians. The ministry hopes that the secondary effect of such subsidies will spur growth through heightened residential construction and ultimately increase the standard of living in Ecuador.

Sources and References

1. Comment & Analysis; Country Ecuador: Review 1999, Profile Americas Review World of Information, December 20, 1999, Statistics Forecast; Pg. 1.
2. Ecuador Sets The Pace In Latin Mortgage Market, Securities Data Publishing Asset Sales Report International, March 8, 1999, Vol. 2 No. 5 Pg. 1.

3. Corporate Finance Updates, LatinFinance, Latin American Financial Publications, March 1, 1999, Pg. 82.
4. Compañia de Titularizacion Hipotecaria (CTH), URL http://cth.fin.ec (Español)
5. World Bank, www.worldbank.org

Contacts

1. Ministerio de Desarrollo Urbano y Vivienda (MIDUVI
   10 de Agosto 2270 y Cordero, Quito Ecuador
   Tel: 693.223.8060
   Fax: 593.256.6785
   http://www.pub4.ecua.net.ec/miduvi/ (Español)

2. Superintendencia de Bancos
   Ave 12 de Octubre 1561 y madrid piso 16
   Quito, Ecuador
   Tel: 593.255.4422
   Fax: 593.255.4832
   http://www.superban.gov.ec/

3. Inter-American Development Bank
   1300 New York Avenue
   NW, Washington, DC 20577
   USA
   Tel: 202.623.1000
   http://www.iadb.org

4. Bolsa de Volares de Quito
   Londres Building- 8th Floor
   Ave. Amazonas 540 and Carriónm
   Quito, Ecuador
   Tel: 593.252.6805
   Fax: 593.250.0942
   http://www.ccbvq.com

5. Bolsa de Volares de Guayaguil
   9 de Octubre 110 y Pichincha
   Guayaquil Ecuador
   Tel: 593.456.1519
   Fax: 593.456.1871
   http://www.bvg.fin.ec/

6. Banco Central del Ecuador
   Casilla Postal 339
   Av. 10 de Agosto y Briceno

Quito, Ecuador
Tel: 593.258.2577
Fax: 593.258.0158
http://www.bce.fin.ec/ (Español)

GUATEMALA

Economic Background

Year	Exchange Rate Quetzales /US$	Consumer Price Index	Change In Consumer Prices	Quetzales Nominal GDP (Millions)	US$ Nominal GDP (millions)
1990	5.01	50.78	41.22%	34,317	6,850
1991	5.04	67.62	33.17%	47,302	9,385
1992	5.27	74.41	10.05%	53,985	10,244
1993	5.82	83.21	11.82%	64,243	11,038
1994	5.65	92.24	10.86%	74,669	13,216
1995	6.04	100.00	8.41%	85,157	14,099
1996	5.97	111.06	11.06%	95,479	15,993
1997	6.18	121.31	9.23%	107,873	17,455
1998	6.85	129.77	6.97%	121,127	17,683
1999	7.82	136.08	4.86%	N/A	N/A

Source: IMF

The Peace Accords, signed in 1996, provided an end to a 34-year-old civil war. They provided a basis for the development of sustainable, economic and social policies in Guatemala. During 1998, economic activity in Guatemala continued to expand, but it slowed by the last quarter due to high interest rates, Hurricane Mitch, and a decline in sugar and coffee prices. The GDP rose by almost 5% in 1998, which was up from the previous two years. Many policy changes have been made in recent years in attempts to transform the country's financial, economic, social, and structural systems. In doing so, Guatemala has increased privatization and broken up many monopolies, thus allowing an inflow of domestic and foreign investment.

Private consumption grew by about 5% in 1998, which can be attributed to an increase in income and expanding access to credit. Private investment grew 13%, as a result of relatively low interest rates (in terms of lending), easy access to credit, and strong domestic demand, especially in the construction sector. Construction and real estate have been reacting to private investment and the increasing availability of affordable mortgage loans since 1997.

Housing Market

Year	Population (Millions)	Housing Starts*
1990	82.59	158,872
1991	87.84	115,543
1992	89.54	206,423
1993	91.21	235,911
1994	93.01	261,925
1995	90.49	173,178
1996	96.58	65,784
1997	96.40	190,549
1998	100.24	
1999		

*Or Completions, Permits

Mortgage Market

Average lending rates declined in 1997 from 22% to 16%. They remained at the same general level until October of 1998, but then climbed again to 18.5% by the end of the year as the government made attempts to decrease the excessive growth in private sector credit. As of January 1997, loan terms range from 5 years to 20 years with an average of 15. Typical loan-to-value ratios range from 60%-100% with the average being approximately 90%. Payment to income ratios (PTI), which measure a borrower's debt burden, range from 25% to 40%. Commercial banks tend to originate lower PTI loans.

As of 1997, there are 3 commercial banks engaged in housing finance, Vivibanco, Banco Continental G&T, and Bancafe. In addition, the state banks, Crédito Hipotecario Nacional and Banco Nacional de la Vivienda (BANVI), a low income subsidy program (FOGUAVI), and a mortgage insurance program (FHA), were involved in finance of housing. In 1995, there was Q 305 million in outstanding mortgage notes (Cédulas Hipotecarias).

Banks fund their mortgages with deposits, which average from 4%-9% and mortgage bonds (Bonos Hipotecarios), which are collateralized by mortgages and other assets. The typical rate in early 1997 of the mortgage bonds was 16% for a term of 1 to 3 years. The bonds are traded at two bolsas and are typically purchased by pension funds and insurance companies.

A cornerstone of the housing finance sector is the Instituto de Fomento de Hipotecas Aseguradas (FHA). This governmental institution’s role is twofold. First, it provides mortgage insurance in the case of default. Second, it proscribes building standards by setting architectural and construction guidelines as well as supervisory oversight for all FHA approved construction. Almost all commercial bank mortgage loans are insured by the FHA. The interest income from FHA insured loans is exempt from taxation.

In order to address the lack of low income housing finance, the government launched the Fondo Guatemalteco Para La Vivienda (FOGUAVI) in 1995. It is designed to increase the supply of affordable housing through subsidized housing finance; subsidization consists of both interest rate and up-front cash grants. FOGUAVI’s initial capitalization of Q 100 million is split among three commercial banks and the Crédito Hipotecario Nacional that are all authorized to originate FOGUAVI loans. While it is significant that an operational framework is now in place to address the country's low income housing problems, its current funding level FOGUAVI will probably finance fewer than 4,000 units in 1997.

Sources and References

1. Inter-American Development Bank Country Assessment: Guatemala, by Ronan Le Berre (Country Economist) http://www.iadb.org/regions/re2/sep/gu-sep.htm
2. Cardiff Consulting Services, "The Guatemalan Housing Finance Sector", Report prepared for the InterAmerican Development Bank, January 1997.
3. World Bank, www.worldbank.org

PANAMA

Economic Background

				Balboas	US$
Year	Exchange Rate Balboas/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (millions)
1990	1.00	94.40	0.77%	5,313.20	5,313.20
1991	1.00	95.59	1.26%	5,842.30	5,842.30
1992	1.00	97.33	1.82%	6,641.40	6,641.40
1993	1.00	97.78	0.45%	7,252.70	7,252.70
1994	1.00	99.02	1.27%	7,733.90	7,733.90
1995	1.00	100.00	0.99%	7,906.10	7,906.10
1996	1.00	101.26	1.26%	8,151.10	8,151.10
1997	1.00	102.53	1.26%	8,657.50	8,657.50
1998	1.00	103.17	0.63%	9,143.80	9,143.80
1999	1.00	104.51	1.30%	9,546.13	9,546.13

Source: IMF

The geographical location of Panama gives it an economy that is service-based, mainly in the areas of banking, commerce, and tourism. Since the 1994 election of President Perez Balladares, Panama has experienced great economic reform aimed at opening the trade sector, attracting foreign investment, privatizing state-owned enterprises, instituting fiscal reform, and creating jobs. Economic growth has since presented definite signs of recovery in that social services are expanding, and the unemployment rate is decreasing. Additionally, Panama joined the World Trade Organization in 1998 and approved a tariff reduction that gave the country the lowest average tariff rates in Latin America.

GDP has experienced growth, though at a decreasing rate throughout the last ten years. GDP increased from approximately US$ 8.7 million to US$ 9.0 million in 1998, however, the growth rate decreased from 4.7% in 1997 to approximately 3.9% in 1998. In 1998, it is estimated that construction and transportation/communications were the two largest contributors to GDP.

Inflation has remained extremely low between 1990-98, peaking at 1.82% in 1992, and reaching its lowest point of 0.45% in 1993. Consumer prices were 1.26% higher in 1997 than the previous year, and the inflation rate decreased to 0.63% during 1998, despite agricultural losses. The unemployment rate is fairly high, with key points of 16.105% in 1991, 13.30% in 1993, and 13.40% in 1997.

Housing Market

In the Metropolitan area of Panama City, the housing market can be divided into four categories. The first is the Informal Housing portion in which houses are built on lands that do not belong to the tenants or builders, often against the will of the owner of the land and without possession of the title or right to rent/lease the property. The second portion is the Social Interest Housing (or low income) portion. In this portion of the sector, houses are constructed and financed mainly through special subsidies provided by the central government, which holds the title of the land and the right to rent the property. The next portion of the housing market consists of Lower Middle to Middle Class housing. This portion of housing is financed mainly through private funds, however, some opt for a long-term loan with interest covering a selling price of up to US$ 62,500. Finally, the top portion of the housing market consists of Middle Upper to Upper Class housing. This section of housing is also paid mainly through private money, however, long-term loans are also available for selling prices of US$ 62,501 and above.

That being said, it is important to note that as late as 1990, 47% of the population in Panama was living in poverty. Therefore, the largest portion of the housing sector is the lower income market, mainly concentrated in rural areas of the country. No records were available for prior years, but in 1999 8,900 building permits were issued for new home construction[1].

Mortgage Market

All together there are seven financial institutions that are involved in Panama's local mortgage market. Created in 1973, the National Mortgage Bank (Banco Hipotecario Nacional, BHN) remains the largest financing institution in Panama. It was designed primarily to finance national housing programs, but it also has oversight authority for the National System for Housing Savings and Loans (Sistema Nacional de Ahorro Prestamo para la Vivienda, SNAP). By the end of 1993, BHN had B$ 135 million in outstanding mortgage debt. Based upon initial estimates, the total outstanding mortgage debt for all 7 institutions in 1999 was approximately US$ 1.3 billion, and there were US$ 14.455 million in new mortgage loan originations.[10]

La Hipotecaria (formerly known as Wall Street Compania Hipotecaria) is another significant financing institution. Their lending requirements are very strict, requiring a great deal of investigation into the applicant's credit history, ability to pay, and income range. They were the first company in Central America to successfully issue and sell a structured mortgage-backed security (MBS). The Panamanian SEC approved the MBS issue of US$ 15 million, and it is fully subscribed by local banks and insurance companies.

Public sector financing comes from the Residence Savings Fund (Fondo de Ahorro Habitacional, FONDAHVI). It is a pension fund that was created in 1991 and requires workers to pay 1% of their earnings into the fund. Savings and loans to only middle and upper income groups, however, originate private sector lending. Chiricana de Ahorro y Prestamo, Interiorana de Ahorro y Prestamo, and SAVISA are the three existing private

[10] *Approximate estimate provided by John D. Rauschkolb, Gerente General of La Hipotecaria; 4 September 2000.*

institutions. In 1993, they generated a combined total of 60 loans for a value of US$ 1.1 million. Private lending is the smallest portion of the mortgage market.

Interest Rates		Mortgage Rates: Panama Reference Rate			
Year	Deposit Rate	Q1	Q2	Q3	Q4
1990	8.40%	13.00%	13.00%	13.25%	13.25%
1991	7.73%	13.25%	13.00%	11.50%	12.25%
1992	5.67%	12.50%	12.00%	12.00%	11.75%
1993	5.90%	11.50%	11.25%	11.25%	11.00%
1994	6.11%	10.75%	10.75%	10.75%	10.75%
1995	7.18%	10.75%	10.75%	11.00%	10.75%
1996	7.20%	10.75%	10.75%	10.75%	10.50%
1997	7.03%	10.50%	10.50%	10.50%	10.50%
1998	6.76%	10.25%	10.00%	10.25%	10.00%
1999*	N/A	10.00%	9.75%	9.75%	9.75%

Similar to a prime rate for mortgages, interest rates in Panama are measured by their country's Reference Rate. The Reference Rate has remained at 9.75% for most of 1999 and 2000. This is down significantly from the beginning of the decade when the rate peaked at 13.00%. Reserved for a bank's best clients, jumbo mortgage rates are around 1% lower than the Reference Rate[1].

Since La Hipotecaria's first issue of Panama's mortgage bonds, there are a total of 4 issues of the mortgage-backed security circulating in the country's local market. Each issue totaled $15,000,000. 2 issues in 1995 and 1 issue in 1996 both completed by Chase Manhattan Bank. The most recent issue in 1999 was done by La Hipotecaria. They plan to have another issue in 2000.

Policy Developments

- **Recent policy** - developments focus on four areas: 1) private sector development and employment creation, 2) fiscal adjustment and public sector modernization, 3) poverty alleviation and human resources development, and 4) environmental conservatism.
- **Banco Continental de Panama –** The International Finance Corporation in Panama has initiated this US$ 5 million program. It is a line of credit to the Banco Continental de Panama for lending to small and medium-sized private sector companies. It approves loans up to US$ 750,000 with maturities as long as 7 years. The goal of this program is to seek international competitiveness.

Sources and References

[1] *Rauschkolb, 2000*

1. IDB Country Assessment: Panama, by Gilberto Chona (Country Economist) http://www.iadb.org/regions/re2/sep/pn-sep.htm
2. World Bank, www.worldbank.org
3. CIA World Fact Book, 1999
4. Rauschkolb, John; La Hipotecaria; email correspondence

Contacts

1. La Hipotecaria
   John D Rauschkolb, Gerente General
   P.O. Box 6-809 El Dorado
   Panama, Republic of Panama
   Tel: 265.1183 or 269.6768
   Fax: 507.265.1217
   Email: johnrauschkolb@hotmail.com

Paraguay

Economic Background

Year	Exchange Rate Guaranies/US$	Index 1990 Consumer Price Index	Change In Consumer Prices	Guaranies Current Nominal GDP (Millions)	US$ Current Nominal GDP (Millions)
1990	1,229.80	43.24	-27.60%	6,474,520	5,265
1991	1,325.18	53.72	24.23%	8,280,765	6,249
1992	1,500.26	61.88	15.19%	9,670,816	6,446
1993	1,744.35	73.14	18.21%	11,991,710	6,875
1994	1,904.76	88.19	20.57%	14,960,131	7,826
1995	1963.02	100.00	13.40%	17,698,589	8,982
1996	2056.81	109.81	9.81%	19,905,300	9,650
1997	2177.86	117.48	6.99%	21,852,400	9,974
1998	2726.49	131.03	11.53%	24,917,659	9,042
1999	3119.07	139.88	6.75%	N/A	N/A

Source: IDBSTA

Paraguay has been in crisis throughout much of the 1990s. After the overthrow of the Stroessner dictatorship in 1989, the country saw only modest growth. Between 1990 and 1998, GDP averaged 2.4%, much lower than the 9% average seen in 1970s and 80s. Many factors contributed to this anemic growth; however, declining exports, a series of banking failures, and political strife were considered the major impetuses for the country's economic predicament.

Paraguay is highly dependent on exports to bolster its economy. Two sectors comprise the bulk of the country's exports, agriculture and hydroelectric power. Agribusiness, the primary driver, constitutes almost 27% of the nation's total GDP. Throughout the decade, production in principal agricultural staples such as soybean, cotton, cattle, and forestry products have been affected by severe regional weather conditions and fluctuating global prices. These factors have reduced the export base and subsequently, the overall economic health of the nation.

Adding to problems, Paraguay encountered numerous financial crises in the 1990s. Poor internal controls and lack of adequate government regulation were the cause of many national banks buckling under economic instability. The repercussions were that the government took over six banks and distributed US$ 600M to support the deposit guarantor fund. In total, 74 of the nation's 103 banks closed and the government passed much needed banking and financial reform legislation.

Since 1989, when democracy was put in place, the government has gone through a number of political crises with the most recent centered around the presidency of Raul Cubas and General Lino Oviedo. These issues culminated to the assassination of the Vice President, and Cubas and Oviedo fled the country in 1999.

Housing Market

Due to a poor national infrastructure and extreme poverty, Paraguay has had difficulties in creating a viable housing market that does not rely on government subsidies. A recent United Nation's update places approximately 15% of the population in abject poverty with little or no viable shelter available. Of the population that can be considered above the poverty line, housing is provided mainly through ownership or rental. A 1997 survey within the country noted that of the available housing almost 75% was comprised of owner occupied properties while 14% was rentals and the remaining 11% was in other forms of tenure.

Survey of housing 1997-1998

Type	Total	
Own	602,278	74.5%
Rental	114,734	14.2%
Yielded	83,912	10.4%
Paying in Quotas	5,177	0.6%
Occupant in Fact	1,165	0.1%
Other	1,111	0.1%
Total	808,377	

DGEEC

Mortgage Market

With the issues surrounding the housing market, the government of Paraguay has become the main source for housing construction and finance. Through programs administered by the National Housing Council (Consejo Nacional de la Vivienda CONAVI), middle and low income families receive subsidies and grants for the acquisition, construction or improvement of housing. Upper income lending is provided primarily by private sector savings and loans associations (Sociedades de Ahorro y Prestamos, SAP).

In order to keep housing loans affordable, CONAVI has adopted the double indexed mortgage (DIM) as its principle loan instrument for housing loans. The Paraguayan DIM amortizes the principal loan balance with a market rate (or sometimes subsidized rate) of interest. Borrower payments start at a low rate, and they are subsequently raised with increases in the minimum wage index.

Policy Developments

In 1998, the Cubas Government formulated policy that bolstered the housing sector. CONAVI's was restructured so that it had the authority to better accommodate the increasing housing demand as well as address poverty issues and implement program improvements in rural areas. In addition to changes in CONAVI, the government mandated the National Housing Council to lay the foundation for a secondary housing market.

In 1999, Law 861de, "Banks and Financier's", was enacted to assist in the formalization of standards for mortgage documentation. Supported by the Ministerio de Hacienda (Ministry of Property), this legislation addresses which minimum requirements must be established and verified by institutions wishing to grant mortgages.

Although Law 861de puts in place an important component to developing a market, Paraguay must address many other basic problems before launching a formal mortgage system. Among the larger issues to be confronted are the lack of title registration and the removal of obligatory provisions that the banks require of the borrower before a mortgage is granted.

Sources and References

1. "Comment & Analysis; Country Paraguay: Review 1999," Profile Americas Review World of Information, December 20, 1999, Statistics Forecast; Pg. 1
2. "Dirección General de Estadisticas y Censos, Asunción," http://www.dgeec.gov.py/
3. "Ministerio de Hacienda," http://www.hacienda.gov.py/
4. "Situación Económica Reciente," Paragua, Banco Internamericano de Desarrollo, 1999 http://www.iadb.org/regions/re1/sep/pr/pr-sep.htm
5. "President Cubas Presents Plans for Economic Reform," Cerro Cora TV, Asuncion, 0055 gmt, August 18, 1998
6. "Latin American Weekly Report," Latin American Newsletters, October 26, 1995, Section WR-95-41 Pg 491
7. "Crisis Threatens The Wasmosy Cabinet," Latin American Newsletters, June 24, 1997, Section WR-97-25 Pg 290
8. "2000 Congressional Presentation – Paraguay," US Agency for International Development, http://www.info.usaid.gov/pubs/cp2000/lac/paraguay.html

Contract

1. Banco Central del Paraguay
   Gerencia de Estudios Economicos Pablo V1 y Sgto. Marecos
   Casilla Postal 861
   Asunción, Paraguay
   Tel: 595-21-490-166/9
   Fax: 595-21-447-645
   http://www.bcp.gov.py/

2. Centro de Análisis y Difusión de Economía Paraguaya *(CADEP)*
   Piribebuy 1.058 e/ Colon y Hernandarias
   Asuncion, Paraguay
   Tel: 595-21-494-140
   http://www.cadep.org.py/

3. Consejo Naciónal de La Vivienda
   Independencia Naciónal No 909

Asunción, Paraguay
Tel: 595-21-491-021
Fax 595-21-491-000

4. Dirección General de Estadisticas y Censos, Asunción
   Tel: 595-21-610-331
   http://www.dgeec.gov.py/

5. Interamerican Development Bank (BID*)*
   Edif. Aurora – 1-3 pisos
   Caballero esq. Eligio Ayala, Cassilla 1209
   Asunción, Paraguay
   Tel: 595-21-492-061
   Fax 595-21-446-537
   http://www.iadb.org/

6. Ministerio de Hacienda
   Chile 128 y Palma
   Asunción, Paraguay
   Tel: 595-21-492-599
   Fax 595-21-448-283
   http://www.hacienda.gov.py/

PERU

Economic Background

				Nuevos Soles	US$
Year	Exchange Rate Nuevos Soles/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Billions)	Nominal GDP (Billions)
1990	0.52	5.54	7481.66%	6.372	12.254
1991	0.96	28.21	409.53%	32.921	34.293
1992	1.63	48.95	73.53%	52.005	31.905
1993	2.16	72.72	48.58%	81.898	37.916
1994	2.18	89.99	23.74%	110.412	50.648
1995	2.31	100.00	11.13%	133.258	57.687
1996	2.60	111.54	11.54%	149.504	57.502
1997	2.73	121.09	8.56%	173.689	63.622
1998	3.16	129.86	7.25%	183.842	58.178
1999*	3.51	134.37	3.47%	193.586	55.153

Source: IMF; *Central Reserve Bank of Peru

Prior to 1998, Peru was experiencing a long period of economic expansion driven by strong, long-term private investment. The economy changed, however, to one characterized by economic contraction caused by weak investment. The disastrous El Niño and the economic crises in both Asia and Russia mainly caused the change. A bank credit crisis led to reforms in monetary policy that alleviated some of the financial strain. However, Peru still remains vulnerable to foreign investment concerns.

The El Niño storm caused great physical losses in Peru. Exports dropped 16% in Dollar terms, and imports dropped by 4.1% in Dollar terms. The current account deficit increased from 5.2% of GDP in 1997 to 6.0% of GDP in 1998. The international reserves of the Peruvian Central Bank declined by US$ 950 million, in order to compensate for the additional account deficit. This was the first reduction of international reserves in a decade. Finally, El Niño caused some deterioration in the financial system itself because banks were forced to accommodate for the credit rollovers of fishing and agricultural institutions.

The financial crises in both Asia and Russia, and more recently in Brazil affected Peru. The Asian crisis led to a mild reduction in demand for Peru's exports. When the Russian financial crisis developed in August of 1998, foreign investors panicked. Banks lost their credit lines with
foreign investors, which caused a liquidity crisis in Peru by September of that year.

The banking crisis in Peru lead to a spike in money market interest rates, a decreasing trend in GDP, and a recession in the urban sectors such as manufacturing, construction, and trade. The loss of bank credit halted the economic recovery that had followed El Niño.

Housing Market

Prior to 1990, obtaining the proper legal title and permits to own and build on property in Peru could take upwards of 7 years. This bureaucratic hindrance contributed to the stress on Peru's housing market's inability to meet the public demand for adequate housing supply. Such market conditions encouraged construction of substandard, informal dwellings such as shantytowns. By 1990 50% of Peru's housing stock consisted of such dwellings. In order to improve housing market conditions, a non-governmental organization, the Institute for Liberty and Democracy (ILD), was developed. Objectively, the ILD planned to achieve the provision of a binding, legal proof of ownership to Peruvian citizens that would substantiate their properties as collateral and enable them to build on their lands, subsequently, developing a popular mortgage and credit insurance market.

The complete housing shortage of Peru (including all dwellings with inadequate, standard utilities) is equal to 1.5 million units. Each year this deficit increases by 100,000, which is scarcely countered by construction growth of 30,000 to 35,000 annually.

Mortgage Market

After years of failure, Peru's mortgage market has ventured into a new beginning. At the end of the 1980s through the beginning of the 1990s, long term financing was not available. Mortgage financing alternatives were limited to private funding sources with short maturities and high interest rates. By the end of 1999, Peruvian financial institutions had incurred mortgage stock worth approximately US$ 1.1 Billion.

In order to tap into the B and C mortgage market, the Peruvian government started the Mivivienda Fund in 1998. The intended purpose of the program was to provide mortgage loans to those of the population with monthly incomes between US$ 330-1,150. The fund has not met government expectations. Mivivienda was funded by mandatory contributions equaling 5% of payroll with a ceiling cap. This tax was renamed the Extraordinary Solidarity Tax, and it is scheduled to be phased out by the end of 2000. Supplying the middle to middle-low income sector of the Peruvian population with attainable mortgage financing has not been achieved through this program, for as of May 2000 only 250 operations have been funded.

Currently, real estate retail loans are only offered to the high to middle income sectors of the population. There is anticipation of a securitization institution to provide funding for origination and securitizing real estate loan portfolios. The plan includes origination being outsourced to banks or a servicing facility.

Policy Developments

Peru has made changes in its conduct of monetary policy. To ease some amount of the liquidity crises, the Central Bank of Peru took several actions:

- It released its foreign exchange liquidity

- Provided liquidity from the Treasury
- Provided additional credit lines through the state-owned *Corporacion Financiera de Desarrollo*
- Reduced the average legal reserve requirements on foreign currency deposits
- Set up a mechanism through which banks could swap their non-performing assets for interest bearing bonds.

Fiscal policy was the second type of reform in Peru. The nation, in conjunction with the IMF, set a target of 1.7% surplus GDP for 1998. The slowdown in economic activity prevented the country from reaching the goal (actual surplus equaled 1.3%) due to unrealizable tax revenues. However, with an improved economic environment, a similar goal is soon attainable.

Sources and References

1. IDB Country Assessment: Peru, by Alberto Melo (Country Economist) http://www.iadb.org/regions/re3/sep/pe-sep.htm
2. Inter-American Development Bank
3. CIPS Country Profile: Peru; Online: Internet. 12 September, 2000. Available - http://www.onerealtorplace.com/intlprof.nsf/
4. Niezen, Alex. “The Mortgage Industry in Peru Entering the New Milenium.” n.p, n.d.

URUGUAY

Economic Background

				Pesos	US$
Year	Exchange Rate Pesos/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	1.59	9.26	112.53%	9,784.00	6,153.46
1991	2.49	18.71	101.97%	20,271.30	8,141.08
1992	3.48	31.52	68.46%	35,867.90	10,306.87
1993	4.42	48.57	54.10%	54,513.50	12,333.37
1994	5.60	70.30	44.74%	82,111.20	14,662.71
1995	7.11	100.00	42.25%	114,572.00	16,114.21
1996	8.71	128.34	28.34%	152,449.00	17,502.76
1997	10.04	153.78	19.82%	188,529.00	18,777.79
1998	10.82	170.41	10.81%	218,145.00	20,161.28
1999	11.34	180.05	5.66%	N/A	N/A

Source: IMF

The conservative monetary and fiscal policies are aimed at reducing inflation; other priorities include moving toward a more market-oriented economy, completing reform of the social security system, and increasing investment in education. Economic performance remains sensitive to conditions in Argentina and Brazil, largely because more than half of Uruguay's trade is conducted with its partners in Mercosur (the Southern Cone Common Market).

The international financial crises led to a sharp decrease in several areas of revenue for Uruguay. But despite the decline in revenue, Uruguay managed to control inflation and decrease consumer prices through December 1998. This was accomplished through implementation of wage indexation and the use of the exchange rate for a nominal price anchor. Inflation decreased from over 100% during the early part of the 1990s, to 28.34% in 1996, and further decreased to 10.81% by 1998.

Moreover, GDP grew by 4.3% between January and September 1998, but the increase slowed during the last quarter. The expansion existed mostly in non-tradable sectors such as construction, via investment outlays of the Ministry of Transportation & Public Works, the Power Company (UTE) for renew transmission lines, and the National Port Administration (ANP) to retrofit the ports.

Household incomes in Montevideo, Uruguay’s capital, were approximately 4% higher in 1998 than in 1997. This is a result of rising salaries and pension, and the temporary decline in unemployment during 1997.

The interest rate on Peso deposits (less than six months) decreased from a 1997 average of 19.6% to a 15.1% in 1998. The average prime lending rate also declined from 39.2% to 30% during the same period.

Housing Market

Between 1990 and 1998, the population in Uruguay grew from 3.11 to 3.29 million. This population is distributed among 970,000 households, leaving approximately 156,000 vacant residences. There are three classifications of lending candidates in Uruguay. The first is a group of "Society Clients," composed of households with monthly income below US$ 450. These households create 50% of the total current demand in the housing market. The other 50% of the market demand are divided into two categories. The "Subsidiary Banking Customers," have a monthly income between US$ 450 – US$ 900, and the "Banking Customers," have a monthly income of over US$ 900. Additionally, the National Mortgage Bank of Uruguay projected, based on the 1996 census, that 200,000 new residences need to be developed between 1996-2006 in order to accommodate the population and demand.

Year	Population (Millions)
1990	3.11
1991	3.13
1992	3.15
1993	3.17
1994	3.20
1995	3.22
1996	3.24
1997	3.27
1998	3.29
1999	

Mortgage Market

Housing finance is provided in two ways. First it comes from the households themselves, and second, it comes from National Mortgage Bank of Uruguay. The Bank holds 85% of the local mortgage market, and it acts as a public instrument to facilitate access to housing, fostering the construction industry, and offering a full range of banking services (emphasizing in housing finance). Most originations made by the Bank are made at a re-adjustable unit (URs). This unit is adjusted monthly to the Salary Average Index, and it varies between 7-12%.

The private sector is showing an increased interest in the housing market. Private market mortgage loans generally target the middle to high-income portion of the market, with rates that fall into a range between 16-20%.

Sources and References

1. IDB Country Assessment: Uruguay, by Ximena Morey (Country Economist) http://www.iadb.org/regions/re1/sep/ur/ur-sep.htm
2. CIA World Fact Book 1999 (Internet Publication) http://www.odci.gov/cia/publications/factbook/uy.html
3. Boz, Enrique S. "Housing Finance in Uruguay." September 1999

4. World Bank, www.worldbank.org

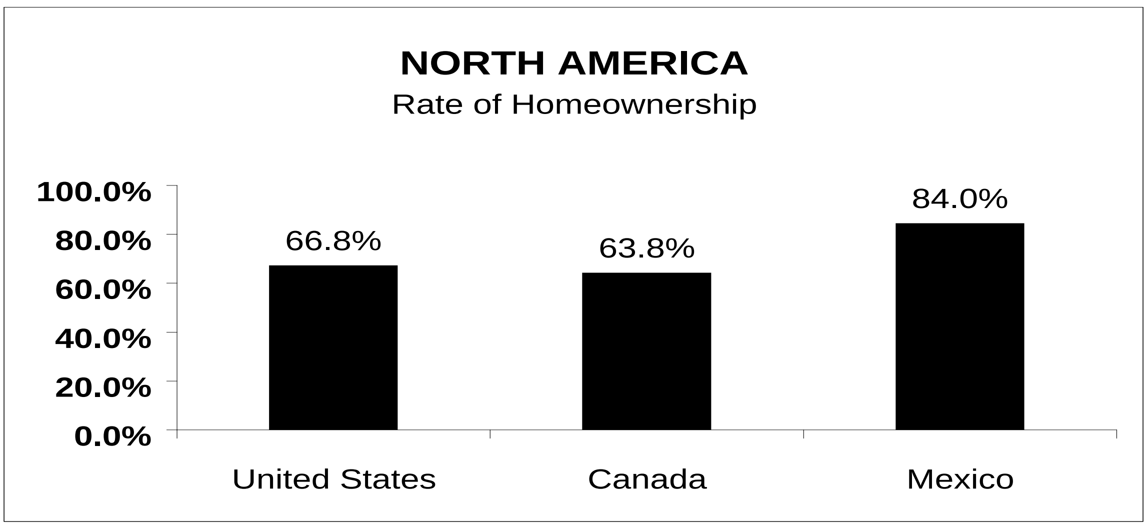
NORTH AMERICA & CARRIBEAN

Regional Summary

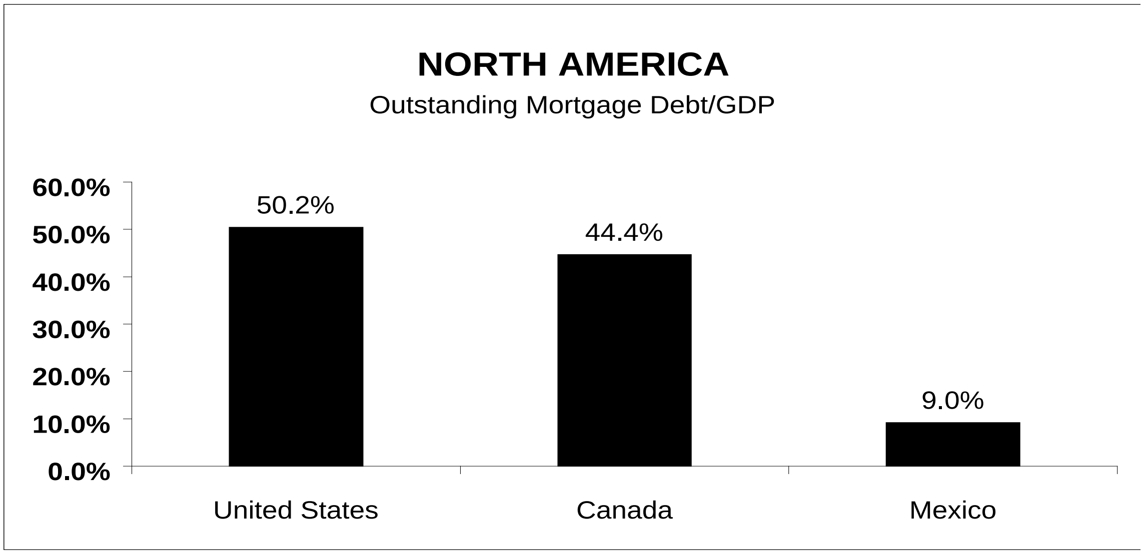
North America

North America is experiencing unprecedented economic growth. The United States economy is in the midst of an unprecedented economic expansion. Unemployment rates have reached an all time low. Domestic strength along with the growth of the U.S. economy has boosted growth in the Canadian economy as well. Over the last decade, Mexico's economy experienced steady growth with the exception of the national currency deflation crisis in 1994-1995 and with the Asian financial crisis in 1998. Poverty at a rate of 28% of that country's population continues to hinder economic growth in contrast to the rest of the region.

Homeownership rates are high in all three countries. In the US, homeownership (and the debt finance of housing) is encouraged through the tax code. These incentives are absent in Canada and Mexico which nonetheless also have high rates of owned housing. In Canada and the US, there are vibrant second hand housing markets that facilitate mobility. In Mexico, lack of clear title, expensive title registration and transfer inhibit development of a secondary housing market.



The US has the largest mortgage market in the world with outstanding balances of US $4.65 trillion and loan origination totals in 1999 $1.3 trillion (second highest ever). Residential mortgage debt-to-GDP in the US is 50.2%. In Canada, mortgage debt-to-GDP is relatively high at 44.5%. The mortgage market of Mexico is far less developed as reflected in a low and relatively constant ratio of 9%. Mexico's low totals reflect a legacy of high and volatile rates of inflation and substantial government involvement in the market.



The source of mortgage funding varies from one country to the next in North America. In 1999 approximately 60.8% of total mortgage originations in the U.S. were funded through securitization activities.[11] The remaining originations were funded either through whole loan sales or held in a portfolio. The Canadian market is dominated by banks which fund mortgages with deposits, debentures and investment certificates. Funding in Mexico comes primarily from payroll deductions, World Bank loans, and the government. Loan arrangements with the World Bank at the end of 1999 have the potential plans of developing a secondary mortgage market.

Caribbean

The economic situations of each Caribbean nation can vary. Twelve of the island nations and coastal countries have come together to form the organization, Caribbean Community (CARICOM). In June of 2000 CARICOM implemented plans to practice free movement of people and capital among the members with future plans to include a single currency system.

The focus of the Sourcebook concentrates on the Caribbean nations of Barbados, Dominican Republic, Jamaica, and Trinidad & Tobago. All of these countries have a large reliance on the construction, tourism, and for some, the telecommunications sectors of their economy.

Poverty and social problems are escalated by high rates of unemployment in this region. While Trinidad & Tobago have experienced decreasing rate trends of unemployment attributed to growth in the construction sector, rates remain at a high level of 9.5%. For Jamaica, slowing GDP growth rates are to blame for double-digit unemployment figures. Barbados, also experiencing decreasing trends, remains relatively typical for the region with 12.3% unemployment in 1998.

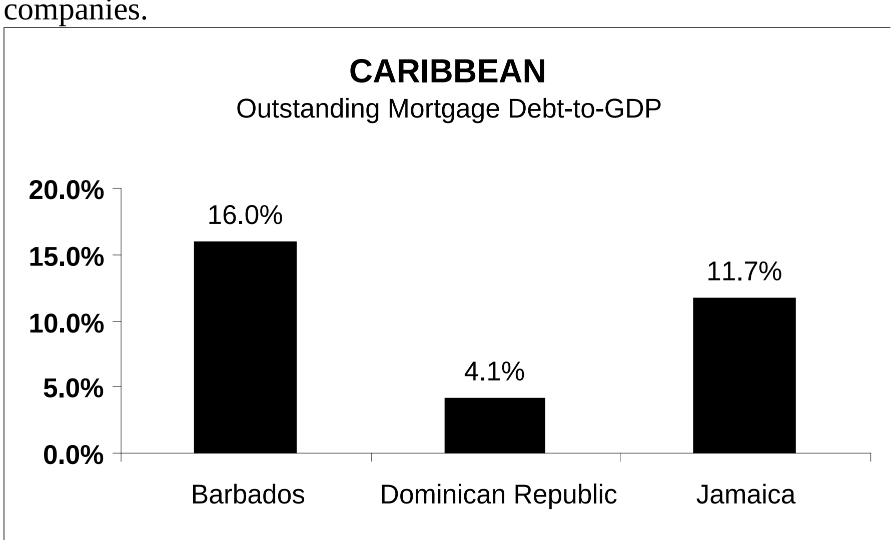
Inflation rates are not consistent for all of the countries in this region. Inflation for Barbados has been in the single digits for the whole decade with rates peaking at 7.7% and dipping well below 3%. The Dominican Republic also has experienced relatively low rates in the single digits for much of the decade. Mounting inflation rates have been

[11] *Source*: Inside MBS & ABS*; August 4, 2000.*

undermining the Jamaican economy with the highest rates over 75% in the beginning of the decade until finally dropping to single digits starting in 1997. Inflation in Trinidad & Tobago trended downward for most of the 90's with rates going back up again in 1998 because of higher food costs attributed to El Nino.

The housing market has shown some signs of growth in this region, but it is still hindered with significant housing shortages. Homeownership rates are high. However, accurate figures were obtained only from Jamaica at 60% and Trinidad & Tobago at 74%.

Mortgage financing can be obtained from several sources, both public and private throughout the Caribbean. In the Dominican, the most popular source comes from savings and loan institutions. Building Societies and the Housing Trust provide housing finance to lower and middle sectors of the population of Jamaica. The National Housing Authority mainly funds mortgages for the lower income bracket of Trinidad & Tobago. In Barbados there are five major contributors to housing finance, the largest being trust companies.



Of the countries featured in the Sourcebook for the Caribbean region, Trinidad & Tobago is the only country with a secondary mortgage market institution. The Home Mortgage Bank (HMB) is a secondary market facility with the primary function of buying and selling loans between financial institutions. Although not covered in this volume, the Eastern Caribbean Home Mortgage Bank was established in 1995 to create a secondary market among the members of the Eastern Caribbean Dollar Area (EC$.) These include Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts/Nevis, St. Lucia, and St. Vincent and the Grenadines.

BARBADOS

Economic Background

				Barbados $	US$
Year	Exchange Rate Barbados $ / US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	2.00	86.04	3.07%	3,440.10	1,720.05
1991	2.00	91.43	6.26%	3,393.40	1,696.70
1992	2.00	97.00	6.09%	3,183.00	1,591.50
1993	2.00	98.08	1.11%	3,301.10	1,650.55
1994	2.00	98.16	0.08%	3,473.90	1,736.95
1995	2.00	100.00	1.88%	3,728.40	1,864.20
1996	2.00	102.39	2.39%	3,993.00	1,996.50
1997	2.00	110.28	7.71%	4,371.00	2,185.50
1998	2.00	108.88	-1.27%	4,680.00	2,340.00
1999	2.00	110.51	1.50%	4,861.90	2,430.95

Source: IMF

Preliminary estimates by the Central Bank of Barbados indicate that the Barbados economy grew 7 percent in 1998, reflecting continued positive response to domestic policy reforms initiated in recent years. Policy reforms are aimed at reducing the relatively high unemployment rate, encouraging foreign investment, and privatizing state-owned enterprises.

GDP has grown steadily throughout the past ten years, but at varying rates. The higher rate of GDP growth in 1998 led to an increase in employment. The average unemployment rate decreased in 1998 to 12.3% from 14.5% in the previous year.

Consumer prices decreased by an average of 1.2% in 1998, resulting from lower import taxes, and favorable external developments (i.e. – declining world oil prices, low US price inflation, depreciation of the Japanese Yen). Throughout 1990-1998, inflation remained in single digits with a peak of 7.7% in 1997, and the lowest increase being 0.08% in 1994.

A higher rate of activity in construction, a major foreign exchange-using sector, was the leading source of economic expansion. It showed a sharp increase of 16.4% in 1998. There was a 39.8% increase in the sale/purchase of construction products including cement blocks, clay tiles, and plastics. Activity in the construction sector was driven by the increase in tourism, road rehabilitation, and private sector investments such as a golf project, upscale condos, hotel renovations, and resort building. The construction sector provided 10.5% of the total employed labor force. This sector showed the greatest increase in jobs for the economy.

Housing Market

In general, the housing market in Barbados has been responsive to market forces throughout the past 30 years, with a relatively strong increase in new units. The population in Barbados is between 260,000 to 280,000, and there are approximately 80,000 household units, with an average household size of 3.5 individuals (down from 4.0). Additionally, housing costs increased during 1980-1995 period. This led to a doubling of costs for small homes.

A significant trend in the housing market has been a shift from wooden homes towards brick homes. In 1970, approximately 75% of homes in Barbados were classified as wooden, decreasing to 57% by 1980, and further decreasing to 40% by 1990. Additionally, the majority of these new homes are constructed directly for homeowners, as opposed to private real estate developers.

Mortgage Market

The housing finance sector in Barbados has flourished since its modest beginnings in 1970s. It was estimated that by 1997, mortgage lending was at 16-17% of the country's GDP. This level is comparatively higher than lending in other developing countries.

Additionally, the housing finance sector has proven to be competitive, illustrating that sector expansion is consumer driven, and it is not subject to government allocations or monopoly restrictions. Moreover, the government has made foreign real estate purchasing easier. The Government of Barbados has eliminated a 10% Property Transfer Tax, so that the only additional fees in foreign purchasing are attorney fees and a 15% VAT.

Mortgage debt outstanding increased over the past decade. In 1990, the mortgage debt outstanding was US$ 259.7 million with a debt to GDP ratio of 7.5%. By 1995, however, the outstanding mortgage debt was US$ 305.90, with a debt to GDP ratio of 8.2%.

Mortgages are originated by one of the five major contributors to the housing finance sector. In descending order they are:

1. **Trust Companies –** Trust companies only take time deposits, do not offer current accounts, and are extremely active in making residential mortgage loans. At the end of 1996, residential mortgage debt outstanding was at BD 344 million, which consisted of 54% of the entire mortgage market (up from 40% in 1986). Additionally, trust companies as a whole reported an average yield of 11% on its loan portfolio in 1996.
2. **Insurance Companies –** Insurance companies are looking for long-term debt instruments and consider mortgages an attractive asset. The two largest insurance company lenders are Barbados Mutual Life Assurance Society and Life of Barbados. Overall, insurance companies have held between 25-30% of the mortgage market since 1980, with an outstanding mortgage balance of BD 160 million in 1997.
3. **Barbados Mortgage Finance Company (BMFC) –** This institution is funded by the Government of Barbados, and has always been identified with lending to moderate-

income portion of the population. In fact, the average loan size in their portfolio during 1996 was BD 43,000. In 1996, BFMC had an outstanding mortgage debt of BD 101 million, which gave it one of the largest single portfolios of housing loans.

4. **Banks –** The next largest lenders are the banks. Banks as a whole possess approximately BD 35 million in long-term loans and are the most common source of funds for home improvement loans.
5. **Credit Unions –** Credit unions, as a group, consist of the smallest portion of the housing market. In 1997, it was estimated that they generated BD 19 million in housing loans.
   However, they do not report the compositions of their loan portfolios. Another estimate is that
   of the BD 19 million, half went to long-term mortgages for construction or purchase, the majority of the second half went to home improvements.

There is no requirement that the rates on existing loans be changed simultaneously with the rate for new loans. However, most lending institutions feel that creating different rates would cost them goodwill of the borrowers and opt not to have different rates. With little rate competition, the current lending rate was at 8% in 1994, 10% in 1997, and remained at 9% in 1998.

Residential Mortgage Market (Millions)

Year	Mortgage Debt Outstanding (Barbados $)	Outstanding Mortgage Debt/GDP	Mortgage Debt Outstanding (US$)	Outstanding Mortgage Debt/GDP
1990	519.40	15.10%	259.70	7.55%
1991	554.60	16.34%	277.30	8.17%
1992	569.60	17.90%	284.80	8.95%
1993	573.70	17.38%	286.85	8.69%
1994	591.30	17.02%	295.65	8.51%
1995	611.80	16.41%	305.90	8.20%
1996	637.20	15.96%	318.60	7.98%

Source: IDB

Policy Developments

There were two major policy developments made during 1997-1998 that affected the economy in Barbados. They were:

- The Value Added Tax Exemption (VAT) – This change in government policy sought to alleviate the impact of abnormally high inflation, which resulted within the nine months that the VAT was implemented.
- CARICOM Common External Tariff – This change in government policy further reformed the trade regime by reducing the tariff on extra-regional imports by approximately 5%.

Sources and References

1. IDB Country Assessment: Barbados, by Michael Tharkur (Country Economist) http://www.iadb.org/regions/re3/sep/ba-sep.htm
2. Inter-American Development Bank, Country Summary: Barbados
3. Diamond, Douglas B. "Housing Finance in Barbados." March 1998
4. World Bank, www.worldbank.org
5. International Monetary Fund: IFC Statistics, 2000

Contacts

1. Barbados Mortgage Finance Company, Ltd
   Ms. Wavney Nicholls, Manager
   Corner 6th Avenue Belleville & Pine Road
   St. Michael, Barbados, West Indies
   Tel: 1.246.427.5780
   Fax: 1.246437.8390

2. Caribbean Assoc. of Housing Finance Institution CASHFI
   Joe Bailey, Secretary General
   7 Belmont Road
   Kingston, Jamaica 5
   Tel: 1.876.968.3855
   Fax: 1.876.926.5598

CANADA

Economic Background

Year	Exchange Rate Canadian $ /US$	Consumer Price Index	Change In Consumer Prices	Canadian $ Nominal GDP (Millions)	US$ Nominal GDP (Millions)
1990	1.17	89.48	4.76%	669,510	572,231
1991	1.15	94.51	5.62%	676,480	588,243
1992	1.21	95.93	1.51%	724,960	599,140
1993	1.29	97.70	1.84%	767,510	594,969
1994	1.37	97.88	19.00%	807,090	589,117
1995	1.37	100.00	2.17%	833,920	608,701
1996	1.36	101.58	1.58%	873,920	642,588
1997	1.38	103.22	1.62%	873,950	633,297
1998	1.48	104.24	0.99%	895,700	605,203
1999	1.49	106.04	1.72%	926,154	621,580

Source: IMF, CMHC estimate GDP 1999

The economy grew at a brisk 4.7% annual pace in the third quarter of 1999, improving on the strong performances in the first two quarters. Domestic strength, coupled with continued strong growth of the U.S. economy and an improving world economy, point to a healthy near term outlook. GDP is expected to continue to grow at more than 3 percent per annum for the next two years. The booming U.S. economy is boosting manufacturers in central Canada and the Maritime Provinces are enjoying a recovery. Coming off the strongest employment growth of the 1990s at 2.8%, job growth slowed in 1999, but it was still strong. The unemployment rate fell from 8.3% to 7.6%. Inflation, at less than 2%, remained in check.

Housing Market

At the end of 1996 there were 10,820,050 dwelling units in Canada with an owner-occupation rate of 63.8%. A strengthened labor market and continued economic growth helped the housing market remain vibrant in 1999 despite higher mortgage rates. Housing starts rose 9% for the year. The improved performance in 1999 followed a weak performance in 1998 in which starts fell 6.5%. Housing sales enjoyed their best year since 1996, registering a 6 percent growth. House prices rose a modest 3 percent, and they are expected to show similar growth in 2000. Rental markets continued to tighten in 1999. The vacancy rate in privately owned apartments of 3+ units was at 2.6%, which was the lowest rate since October 1987. Despite the tightening supply, rent increases were moderate in most areas with the exception of several Prairie centers and Ontario. Rental construction was expected to increase, thus leading to increased market stability in 2000.

Year	Housing Starts	Housing Completions	Residential Sales	Average Price: All Dwellings C$
1992	168,271	146,274		
1993	155,443	132,749		

1994	154,057	134,076		
1995	110,933	99,089	251,741	150,368
1996	124,713	95,980	321,586	150,848
1997	147,040	117,821	329,956	154,644
1998	137,439	113,529	314,323	152,363
1999	149,968		334,043	157,414

Source: CMHC

Mortgage Market

Mortgage market growth was strong in 1999, reflecting the vibrant housing market and economy. Mortgage credit outstanding was 5.3 percent higher in the third quarter of 1999 relative to the third quarter of 1998. This followed growth rates of 5.2% in both 1997 and 1998. Loan approvals fell in 1998 but rebounded in the first two quarters of 1999. Mortgage debt-to-GDP is relatively high at 44.5% given the fact that there is no tax incentive for mortgage debt in Canada.

Residential Mortgage Market (Millions Canadian $)

Year	Mortgage Debt Outstanding	Loan Approvals (C$ million)	Loan Approved (units)	Outstanding Mortgage Debt/GDP
1992	295,228	82,934	1,047,914	40.7%
1993	313,703	71,007	883,162	40.9%
1994	332,549	65,116	764,042	41.2%
1995	342,058	52,085	643,536	41.0%
1996	359,272	70,671	840,044	41.1%
1997	376,725	75,317	839,107	43.1%
1998	398,468	71,861	755,003	44.5%
1999	411,567			44.4%

*third quarter Source: CMHC

Chartered banks enhanced their market share of new mortgage business in 1998. Their market share of conventional financing grew to 85.3% in 1998, up from 83.7% in 1997 in line with ongoing changes in the structure of Canadian financial markets. At the same time the banks market share of NHA insured loans fell 0.8 percentage points to 64.9%.

Market Share by Lender Type 1998

	Debt Outstanding	Approvals
Comm Banks	64.0%	71.0%
Trust Cos.	6.0%	8.0%
Caisses & Co-op	14.0%	14.0%
Life and Pension	7.0%	2.0%
Finance & Loan	9.0%	5.0%

Source: CMHC

Market Share by Loan Type 1998

	Debt Outstanding	Approvals
NHA Insured	40%	42%
Conventional	60%	58%

Source: CMHC

Four banks control about 50% of mortgage lending:
- Royal Bank of Canada @ 14.6%
- Toronto Dominion @ 14.5%
- CIBC @ 12%
- Bank of Montreal @ 9.8%.

Roughly 70% of Canadians rely on a single provider for all their banking needs.

The principal mortgage instrument in Canada is the rollover mortgage, a form of variable-rate loan. Borrowers select a period of time between one and five years during which the mortgage interest rate is fixed. During this period, they can prepay or refinance the mortgage but are subject to a penalty of three months interest. At the rollover date they select another period, again from one to five years during which the rate is fixed. During the fixed interest period, lenders charge steep penalties for prepayment. The typical term for loans is 30 years. There is little lending at LTVs above 75%. A sub-prime market is just beginning to develop.

Interest Rates

						Govt. Bond Yields	
Year	Interbank Money Market	Deposit Rate	Treasury Bill Rate	Mortgage rates 1 year fixed	Mortgage rates 5 year fixed	Mid Term	Long Term
1990	11.62	12.81	12.81			11.19	10.85
1991	7.40	8.62	8.73			9.16	9.76
1992	6.79	6.67	6.59			7.43	8.77
1993	3.79	4.92	4.84			6.46	7.85
1994	5.54	5.59	5.54			7.79	8.63
1995	5.71	7.15	6.89			7.64	8.28
1996	3.01	4.33	4.21	6.19	7.92	6.21	7.50
1997	4.34	3.59	3.26	5.54	7.07	5.33	6.42
1998	5.11	5.03	4.73	6.50	6.93	5.16	5.47
1999	4.76	4.91	4.72	6.97	7.75	5.50	5.69

Source IMF, Mortgage rates CHMC (1999 Q3).

Canadian lenders fund mortgage loans with deposits, debentures and investment certificates that have fixed rates for the same period as the mortgages. A mortgage backed securities market was created in Canada in 1977 when the Canadian Mortgage and Housing Corporation (CMHC) sold a large portion of its portfolio. CMHC guarantees MBS backed by federally insured (NHA) loans. Although a significant source of finance, the secondary mortgage market has not achieved the prominence of that in the U.S. Canadian lenders have had less incentive to sell mortgages, and as a consequence, liquidity in Canadian MBS is not as great as for U.S. MBS. As of the end of 1998, outstanding MBS of $24.6 billion constituted 5 percent of outstanding mortgage loans and 12 percent of outstanding NHA insured loans.

NHA Mortgage Backed Securities (millions of C$)

Year	Issued	Outstanding
1992		
1993		
1994		
1995		
1996		
1997	6,949	14,787
1998	9,076	19,101
1999*	8,710	24,598

* Quarter 3; Source: CHMC

Policy Developments

CMHC is a crown corporation owned by the Canadian government. The CMHC is the main instrument of housing policy in Canada. It was created in 1954 to provide default insurance on loans secured by homes and also to buy and sell NHA-insured mortgages. It does little direct lending today but rather insures loans through the NHA program and issues MBS. In recent years, CMHC has been operating on commercial principals.

Sources and References

1. American Banker, April 27, 1998
2. CMHC Mortgage Market Trends, Fourth Quarter 1999
3. CHMC Housing Outlook, First Quarter 2000
4. CMHC, Canadian Housing Statistics, 1998
5. IMF: International Financial Statistics, 2000
6. World Bank, www.worldbank.org

Contacts

1. Canada Mortgage and Housing Corporation.
   700 Montreal Road,
   Ottawa, Ontario
   Tel: 613.748.2000
   www.cmhc-schl.gc.ca

DOMINICAN REPUBLIC

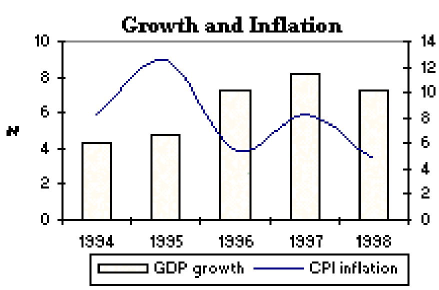
Economic Performance

				Pesos	US$
Year	Exchange Rate Pesos/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	11.35	169.96	50.46%	60,305	5,313
1991	12.66	106.49	47.08%	96,333	7,609
1992	12.58	106.44	4.26%	112,698	8,959
1993	12.77	7.26	5.25%	121,808	9,539
1994	13.06	103.28	8.26%	137,566	10,533
1995	13.46	100.00	12.54%	162,283	12,057
1996	14.06	98.73	5.40%	183,532	13,053
1997	14.37	95.29	8.30%	215,064	14,966
1998	15.79	88.89	4.49%	241,910	15,320
1999*	N/A	N/A	N/A	N/A	N/A

Source: IMF

The Dominican Republic has an economy that is characterized by high economic growth, low inflation, and continuous reduction in the national debt. Throughout the 1990s, tourism, construction and telecommunications sectors have been the main source of growth for the country, registering more than 60% of the growth for the past five years. There was a slight contraction in 1998 due to Hurricane George, but consumer prices and the exchange rate remained stable. In 1999 the Dominican economy sustained growth with a low rate of inflation. Additionally, economic stability and growth, and increased confidence have led to a significant expansion of the Republic's banking sector. The Republic was not directly affected by the international financial crisis.

Between 1992-1998, the Dominican Republic has experienced stable, economic growth patterns. During 1998 alone, GDP increased by 7.3%. Growth has averaged 7.6% over the past three years. This was one of the most substantial increases in all of Latin America. All this despite the US$ 2.2 billion lost due to damages and a short-term food shortage caused by Hurricane George.



Inflation throughout the 1990s remained in the single digits, with the exception of 1994-95, when it peaked at over 12%. Inflation in 1998 was under 5%. Projections for inflation in 1999 are estimated at 7.25 to 8%.

In line with the growing economy, the unemployment rate has experienced a significant decrease. In 1991 the unemployment rate was recorded at 19.6%, and it decreased to 14.3% by 1998. Construction, tourism, and telecommunications sectors contributed greatly to the approximately 200,000 new jobs that were created in 1999.

Housing Market

Despite the promising growth rate in the construction sector, a housing shortage still exists in the Dominican Republic. The housing deficit is estimated at 600,000 units. In order to eliminate this shortage and to account for a growing population, annual investments in the housing sector of 30,000 million Pesos are required.

In June of 2000 it was reported that under the administration of President Leonel Fernandez, RD$ 2,000 million was invested in a program managed by the Instituto Nacional de la Vivienda (INVI.). The investment went towards 83 housing projects managed by the INVI. This project includes 51,276 houses. Of this total, 39,845 were a part of a repair and construction program to benefit families who lost their homes as a result of Hurricane George.

Mortgage Market

The main sources of household financing in the Dominican Republic come from savings and loan associations. There are a total of seventeen associations in the country. Catering mostly to middle-income homebuyers, these associations make up 19% of the financial system's assets. Lower-income households rely on the National Housing Institute and household finance companies for obtaining their financing. Regulating the savings and loan institutions is the responsibility of the National Housing Bank (Banco Nacional de la Vivienda – BNV.) To maintain their regulation, the BNV imposes per family lending caps on all loans originated by the savings and loan institutions.

Another 10% of the country's financial assets are held by fourteen mortgage banks that serve mostly upper-income borrowers. The largest mortgage bank is the Dominican Mortgage Bank (Banco Hipotecario Dominicano – BHD.) These institutions also differ from the savings and loans in their ability to offer financing for short-term, medium-term, and long-term commercial construction projects. BNV and the Central Bank are responsible for the regulation of the mortgage banks, but with less strict regulations compared to their S&L counterparts.

Housing finance has shown considerable growth over the past 5 years. At year-end of 1995, outstanding mortgages equaled 4,512 million Pesos and totaling 4,441 loans. By 1998 these numbers had just about doubled to 8,608 loans totaling 9,868.7 million Pesos.

Policy Developments

Foreign Investment Law (1995) – Based on free trade, this law establishes equal treatment of local and foreign investors.

Free Trade Agreement (1995) –This law establishes free trade with Central America. Additional agreements were signed with France, Chile, Ecuador, and Taiwan for the protection of investments.

General Reform of Public Enterprises Law (1997) – This law expands the area allowing foreign investment. It also facilitates the privatization of several state-operated institutions, including the Dominican Electrical Company (CDE).

Sources and References

1. IDB Country Assessment: Colombia, by Jose Juan Gomes Lorenzo (Country Economist)
   http://www.iadb.org/regions/re2/sep/dr-sep.htm
2. World Bank. Available: www.worldbank.org
3. CIA World Fact Book, 1999
4. El Banco Central de la Republica Dominica. Available: http://www.bancentral.gov.do
5. "Evolution of the Economy, Monetary Policy and Outlook for Investment in the Dominican Republic". Address of Governor Hector Valdez Albizu of the Central Bank of the Dominican Republic, at the Adam Smith Seminar (June 9-11, 1999).
6. “Fernandez Administration Built 51,276 Housing Units.” Dominican Republic One Daily News. June 15,2000. Available: http://www.dr1.com/daily/news061500.shtml
7. Library of Congress. Country Studies: Dominican Republic. Banking and Financial Services. Available: http://lcweb2.loc.gov/cgi-bin/query/r?frd/cstdy:@field(DOCID+do0071)
8. “The Dominican Republic Productive Sectors Remain Strong.” Caribbean Association of Housing Finance Institution – CASHFI Newsletter. August 2000.

Contacts

1. Caribbean Assoc. of Housing Finance Institution CASHFI
   Joe Bailey, Secretary General
   17 Belmont Road
   Kingston, Jamaica 5
   Tel: 1.876.968.3855
   Fax: 1.876.926.5598

JAMAICA

Economic Background

				Jamaican $	US$
Year	Exchange Rate Jamaican $ /US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	8.04	18.89	21.96%	30,518	3,796
1991	21.49	28.53	51.07%	45,217	2,104
1992	22.18	50.58	77.30%	73,253	3,303
1993	32.47	61.75	22.07%	99,843	3,075
1994	33.20	83.40	35.06%	132,377	3,987
1995	39.62	100.00	19.91%	170,133	4,294
1996	34.87	126.41	26.41%	203,109	5,825
1997	36.34	138.61	9.66%	220,556	6,069
1998	37.05	150.58	8.63%	251,122	6,778
1999	41.29			266,592	6,457

Source: IMF

In 1998, price stability and low inflation were the two favorable factors that can be mentioned that counterbalanced the large fiscal deficit of the Jamaican economy. Jamaica, like many other developing countries, has been affected by the economic crises in Asia, Russia, and more recently Brazil. A National Roundtable, created by the Prime Minister in 1999, has met to discuss the problems of the economy, and divided the problem (and task at hand) into five major areas. The areas of reformation/reconstruction are the macroeconomic structures of the nation, the partnership of growth and development, the social infrastructure, the physical infrastructure, and international competitiveness.

Inflation steadily decreased throughout the majority of the 1990s, also attributing to the price and exchange rate stability in the country. For example, the 1997 rate of inflation of 9.66% was the first time the country had seen a single-digit increase in almost ten years. Inflationary pressures, however, are again mounting.

GDP continues to grow, but at a slower rate. In 1992, Jamaica had a GDP growth rate of 1.2%, compared to a 0.5% GDP growth rate in 1995, and –1.4% by 1996. The slowing GDP growth rate led to increased unemployment. Of the approximate 2.5 million people in Jamaica, estimates show that the unemployment rate was at 16.5%, up from 16% in 1996, and 15.4% in 1994.

The slowing GDP and increasing unemployment are reflections of the nation's fairly high interest rates, resulting from tight monetary policy that aims at defending the national currency and a large fiscal deficit. Treasury bills peaked at 42.9% in 1994, and saw its lowest rate of 21.4% in 1997. Additionally, the deposit rate also experienced a high in 1994 of 36.4%, and then decreased to 13.9% by 1997.

Housing Market

The housing market in Jamaica is flourishing, showing several trends of expansion. By 1995, it was estimated that 45% of the approximate 2.5 million in the country owned their homes, up from 27.5% in the previous year, and 6.2% in 1990. In fact, new originations went from approximately 5,556 units in 1992 (valued at J$ 1,540.5 million), to approximately 10,277 units in 1995 (valued at J$ 16,771 million). Home ownership continues to experience an increasing trend, but at a slower rate. In 1999 the ownership rate was at 60.1%.

Despite the increasing trend of new originations, the housing construction sector has experienced the opposite. The contraction within the sector is attributed to two main factors. The first is that value of construction material imports increased by approximately 2% in 1998, the highest increase since 1992. The second factor contributing to the contraction is the reduced activities of the Portmore Pines and Cedar Grove Estates housing projects. Housing starts decreased by 41.2% to 4,232 units during 1997, the lowest since 1992. Similarly, completions decreased by 40.4% to 3,694 units. This was also a low point since the early half of the decade.

Despite these changes within the sector, construction has continued to significantly contribute to the growth of GDP. In 1990 and 1991, the sector recorded 9.8% of GDP, decreasing to 9.4% by 1995, and finishing the decade at approximately 8.4% of GDP.

Year	Population (Millions)	Owner Occupancy	Housing Starts*
1990	2.41	0.06	3,070.00
1991	2.37	0.06	4,810.00
1992	2.40	0.07	5,710.00
1993	2.42	0.11	6,045.00
1994	2.46	0.27	6,028.00
1995	2.49	0.45	7,171.00
1996	2.52		3,422.00
1997	2.55		3,373.00

*Or Completions, Permits

Source: IMF; Planning Institute of Jamaica. Available: http://www.mechala.com/devsegmt.htm

Mortgage Market

There are four general classifications of sources for loan originations in Jamaica. They are:

1. **National Housing Trust** - The National Housing Trust continued to be the dominant lending institution in Jamaica. Its originations grew by 22.7% in 1997, with a 51.5% increase in value (J$ 1.4 billion). Also in 1997, the NHT increased its individual home loan limit from J$ 600,000 to J$8 00,000, and from J$ 2 million to J$ 2.4 million for co-applicant home loans.
2. **Building Societies** – The Building Societies offer special mortgage rate plans to meet the needs of lower-income individuals, helping them to buy a home. In 1998, they

financed a combined 1,077 mortgages, down from 2,497 in 1997. The number of building societies has decreased from over 20 to approximately 10 due to tightened economic conditions and the increased competitiveness of the NHT.

3. **Commercial Bank Loans and Advances –** There is very little data on commercial bank lending portfolios, however, it is known that this portion of the financing sector has experienced continued decline since 1995.
4. **"Other" Mortgage Providers –** This portion consists mainly of credit unions and two major life insurance companies. In 1998, credit unions financed 28 mortgages for a value of J$ 28.9 million, up from 10 mortgages in 1997, for a total value of J$ 11.4 million. This increase in the market share of mortgage financing is attributed to its more competitive interest rates. In terms of the insurance companies, available data reports that they financed a combined 42 mortgages in 1998 for a value of J$ 27.3 million, up from 35 mortgages in 1997.

Generally, the mortgage finance sector has experienced decreasing lending rates, reaching a peak of 49.5% in 1994. It then fell to a rate of 34.7% by 1998.

Policy Developments

In recent years, the Government of Jamaica has sought a more appealing business environment by lowering interest rates selectively. For example, the Bank of Jamaica repossession rate was reduced from 29% in 1997 to 22% for the majority of the first quarter of 1999. This initiative has sparked decreases in the lending and Treasury bill rates.

The Financial Sector Adjustment Company (FINSAC) was set up in 1997 to implement the rescue of failed institutions and long-term reforms. The organization is pursuing a plan of consolidating financial institutions under two entities: a commercial bank (Union Bank), and an insurance company (Independent). The consolidation is a repackaging of the institutions for future divestment.

Sources and References

1. IDB Country Assessment: Jamaica, by Desmond Thomas (Country Economist)
2. http://www.iadb.org/regions/re3/sep/ja-sep.htm
3. Inter-American Development Bank
4. Bank of Jamaica
5. Caribbean Association of Housing Finance Institutions. "Construction and Installation." 1998
6. Caribbean Association of Housing Finance Institutions. "CASHFI Newsletter." July 1998
7. Statistical Institute of Jamaica
8. National Housing Trust
9. The World Bank – "Country Report: Jamaica." www.worldbank.org
10. CIA World Fact Book, 1999

Contacts

1. Caribbean Assoc. of Housing Finance Institution CASHFI
   Joe Bailey, Secretary General
   17 Belmont Road
   Kingston, Jamaica 5
   Tel: 1.876.968.3855
   Fax: 1.876.926.5598

2. National Housing Trust
   Earl Samuels, Managing Director
   4 Park Boulevard
   Kingston, Jamaica 5
   Tel: 1.876.926.7165 Fax: 1.876.968.3286
   Email: esamuels@cwjamaica.com

3. Victoria Mutual Building Society
   Karl P Wright, CEO
   73-75 Hald Way Tree Road
   Kingston, Jamaica
   Tel: 1.876.968.1765 Fax: 1.876.968.1762
   Email: manager@vmbs.com

MEXICO

Economic Background

				Pesos	US$
Year	Exchange Rate Pesos/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Billions)	Nominal GDP (Billions)
1990	2.95	44.53	26.65%	738.90	250.47
1991	3.07	54.63	22.66%	949.15	309.17
1992	3.12	63.10	15.51%	1,125.33	360.68
1993	3.11	69.25	9.75%	1,256.20	403.92
1994	5.33	74.07	6.97%	1,420.16	266.45
1995	7.64	100.00	35.00%	1,837.02	240.45
1996	7.85	134.38	34.38%	2,503.81	318.96
1997	8.08	162.10	20.63%	3,178.95	393.43
1998	9.87	187.91	15.93%	3,791.19	384.11
1999	9.51	219.07	16.58%	4,588.47	482.49

Source: IMF; *Banco de Mexico

Mexico has a substantially free market economy. The nation experienced steady growth throughout most of the 1990s, with two periods in exception: 1994-95 (the national currency deflation crisis) and the second quarter of 1998 (the Asian financial crisis). A great deal of privatization occurred between 1982 and 1998, which has contributed greatly to economic growth, increased employment, and produced higher wages. Despite the robust economy, Mexico still faces many structural problems including a poverty rate of over 28% of the country's population.

With the exception of the two periods previously mentioned, economic indicators have been consistent in their trends. Gross Domestic Product increased from 3.0% in 1993 to 8.4% in 1994, decreased to –23.5% in 1995, and then increased again to 10.2% in 1997. The second quarter crisis in 1998 left the GDP at 4.8%. The construction sector has remained a strong contributor to the growth in GDP. In 1994, construction had an annual growth rate of 8.4% in terms of GDP, (-23.5% growth for 1995), and reached a 10.2% growth rate by 1997. Again, due to the 2nd quarter crisis, the annual construction growth rate decreased to 4.8% by 1998.

Since the 35% jump in consumer prices in 1995, Mexico has been successfully fighting inflation. Inflation during 1997 was 20.6%, and despite the turmoil in 1998, the inflation rate further decreased to 15.9%. Preliminary estimates suggest inflation fell further in 1999. The official unemployment rate in 1998 was registered at 2.6%; however, there is considerable underemployment and extreme poverty throughout the nation.

Housing Market

The Mexican population as of 1999 was 98 million. This included 21 million households. The urban growth rate remains high. The rate of new household formation is 600,000 -

700,000 a year. It is estimated that 84% of all homes are owner-occupied and less than 10% of the housing stock is mortgaged. SEDESOL, the Ministry of Social Development, estimates that 3 million housing units are inadequate or deficient.

There are three distinct types of housing markets in Mexico: formal private sector, formal public sector, and the informal. Formal private and public sector homes are built by developers and are titled properties, whereas the informal sector consists mainly of squatters. Informal construction occurs gradually on land which may or may not be registered and titled to the occupant, and which may not initially have municipal services. Between 50-65% of all new homes built in Mexico each year are of this type.

The Mexican housing stock grows between 500,000 and 750,000 units per year. Approximately 85% of the formal housing starts since 1995 have been built by the pubic sector. In 1997, 190,549 new homes were completed. The growth rate of construction of new homes has slowed to lack of financing. Unit sizes range between 50 m2 in the social sector to 125-275 m2 in the private residential market. The average prices in 1999 were:

Economic Group	Distribution	US$ Income Range	US$ House Prices
Social	24.6%	$3,000-$7,500	$13,900
Economic	40.5%	$7,500-$15,000	$20,200
Middle	23.8%	$15,000-$30,000	$47,400
Residential	9.0%	$30,000-$60,000	$100,000
Residential Plus	2.2%	$60,000+	$378,100

Source: Softec

Except for the middle market, home prices adjusted for inflation have shown a significant reduction since 1993. This reflected the lingering effects of the two economic downturns, as well as increased competition and efficiency among developers.

Mortgage Market

	Pesos (billions)			US$ (billions)		
Year	Mortgage Debt Outstanding	New Originations	Outstanding Mortgage Debt/GDP	Mortgage Debt Outstanding	New Originations	Outstanding Mortgage Debt/GDP
1991	47.81	12,689.00	5.04%	15.57	4,133.22	5.04%
1992	77.83	25,271.00	6.92%	24.95	8,099.68	6.92%
1993	109.12	25,525.00	8.69%	35.09	8,207.40	8.69%
1994	145.87	30,136.00	10.27%	27.37	5,654.03	10.27%
1995	220.85	14,785.00	12.02%	28.91	1,935.21	12.02%
1996	251.79	19,015.00	10.06%	32.08	2,422.29	10.06%
1997	280.38	9,107.00	8.82%	34.70	1,127.10	8.82%

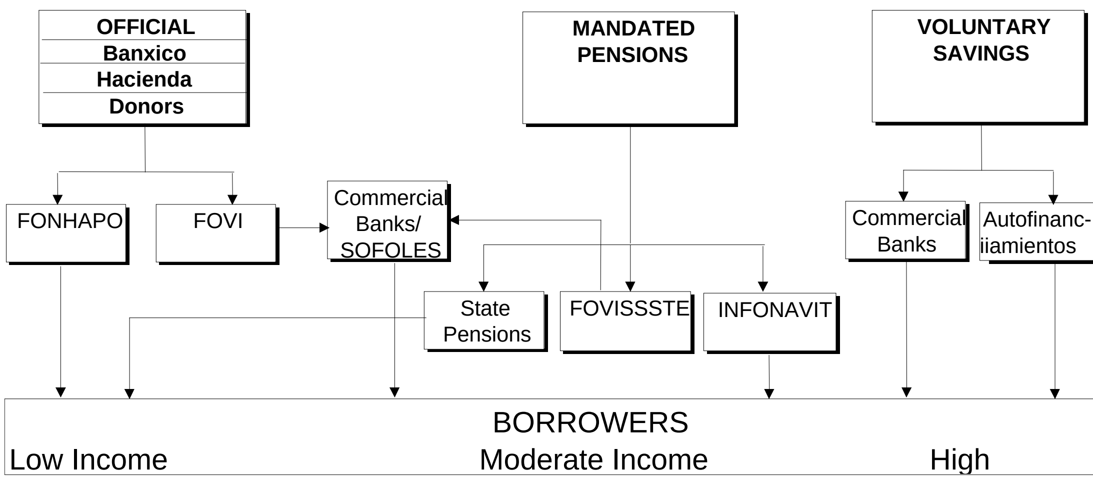
Source: IDB

Mortgage debt, as a percentage of GDP, has remained roughly constant at 9%. This number is somewhat misleading however, as much of the post-1994 increase reflects negative amortization. Mortgage originations were affected by the 1994 economic crisis. Private sector mortgage lending virtually disappeared, and originations went from N$

30,136 million in 1994, to N$ 19,015 million in 1996, to a low of N$ 9,107 million in 1997. Moreover, delinquency began to increase because of increasing unemployment and poor loan servicing and origination. In an attempt to rescue the mortgage market system, the Government of Mexico bought most of the delinquent loans at the time. As of September of 1999, the government purchased US $80 billion in bad loans, totaling 20% of GDP.

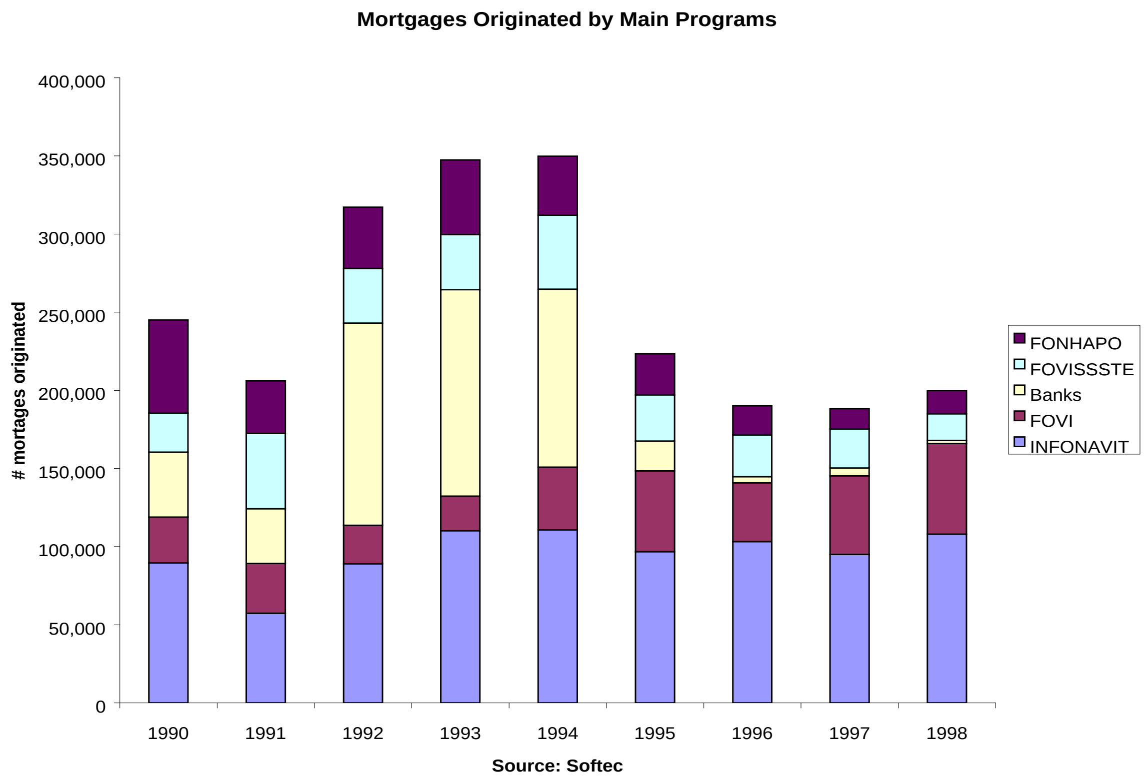
The structure of the mortgage market as of the late 1990s is shown in Figure 1:

Figure 1
MEXICO: STRUCTURE OF THE HOUSING FINANCE SYSTEM, 1996



Source: Bernstein, Lea and Renaud 1997

Funding for mortgage lending comes from four main sources: a 5% payroll deduction that goes into funds called INFONAVIT for private sector workers and FOVISSTE for public sector workers. INFONAVIT is the largest originator of mortgages in Mexico today. World Bank loans and Mexican Federal Budget contributions are on lent by FOVI to banks and SOFOLS, which are special purpose non-bank financial institutions. Commercial banks also fund loans from deposits. There was a dramatic decline in bank lending after the 1995 financial crisis. Prior to that time, 60% of originations came from banks with the leading lenders Banamex, Bancomer, Banco Serfin and Inverlat. Lending is also done by Autofinanciamientos, which are a closed savings and loans system which are also very popular in assisting with the purchase of cars (25-30% of total sales). It is estimated that there are 100,000 members in such programs generating 500-1,000 new loans per month. The structure of originations by number of loans is shown in the following chart:



The primary mortgage product in Mexico is the dual index mortgage (DIM). The DIM separates loan accrual rate, which is based on a market interest rate such as certificate of deposit or treasury (CETES), and the borrower payment rate which is indexed to the minimum wage. The maximum term is set at 30 years but the initial term is less (e.g., 20 years) in order to account for the negative amortization that occurs when market rate changes are greater than wage changes. This instrument is used by FOVI and the SOFOLs. INFONAVIT uses a variant of this instrument.

There are three types of mortgage instruments in Mexico. They are:

1. **FOVI –** A Dual Index Mortgage (DIM), with 25-30 year maturity. It is indexed to the minimum wage and balance 5% fixed (inflation indexed) accrual rate. It has a maximum LTV of 90%, and prior to the 1994 crisis, the balance was indexed to CPP.
2. **INFONAVIT –** Price Level Adjusted Mortgage (PLAM) that is indexed to the minimum wage. Payment maximum is 25% of actual borrowed income. It has 25-30 year maturity, payments are made bi-monthly through direct debit.
3. **Restructured Commercial Bank Loans –** PLAM (referred to as UDI). Various accrual rates indexed daily to UDIs (Price Index). Most have 5-10 years of payment subsidies from the government.

SOFOLES, which in Spanish means Limited Purpose Financial Institutions, are private mortgage banking institutions in Mexico. They can not take deposits from the public, but they are authorized to lend to any income level. However, these banks currently lend exclusively to the public sector and low-income individuals. SOFOLES servicing is very aggressive in comparison with that of the country's other financing institutions as evidenced by low relative default rates. Recently, the SOFOLES began originating loans other than those in the FOVI program. The largest SOFOL, Su Casita, issued a small mortgage-backed bond in mid-2000.

PROSAVI is the country's main, very-low income program for housing finance. The program is administered by FOVI. It provides highly subsidized housing finance for the purchase of houses that cost less than US$ 10,000. The PROSAVI program provides a 20% up-front subsidy. The borrower is obligated to make an additional 10% down payment resulting in a loan-to-value ratio of 70%. This is in contrast to the standard FOVI programs that require a 10% down payment resulting in a 90% loan-to-value ratio.

Policy Developments

- Stand-by Agreement with the IMF – This was a broad three-year external financing program totaling US$ 23.7 billion, consisting of $ 16.9 billion in credit from international organizations and $ 6.8 billion in contingent credit arrangements with the U.S. and Canadian monetary authorities.
- In 1999, FOVI obtained a World Bank loan of US$ 505 million. The preparation for the loan was a three year process that targeted FOVI as being the center-piece of the Mexican housing finance system. One potential outcome of this process is the creation of a secondary mortgage market.

Sources and References

1. IDB Country Assessment: Mexico, by Ignacio Trigueros (Country Economist) http://www.iadb.org/regions/re2/sep/me-sep.htm
2. World Bank, www.worldbank.org
3. CIA World Fact Book, 1999
4. El Banco de Mexico. Available: http://www.banxico.org.mx/
5. Payeras, Manuel Z. "Housing Finance in Mexico: Current Conditions and Challenges." September 1999.
6. Bernstein, S., Lea, M. and Renaud, B., Mexico's Housing Finance System 1991-96, Privatization in an Unstable Environment, Paper presented at the AREUEA International Real Estate Conference, U.C. Berkeley, June 1-2 1997.
7. Bernstein, S. ed., Mexico-United States Bi-national Conference on the Development of a Secondary Mortgage Market in Mexico Conference Summary, Office of Federal Housing Enterprise Oversight, June 1999
8. Softec, Mexican Housing Overview 1999

Contacts

1. Softec S.C.
   San Jeronimo 428
   Jardines del Pedregal
   Mexico DF 01900
   Tel: 52.56.68.1683

Fax: 52.56.68.1689

TRINIDAD & TOBAGO

Economic Background

				TT$	US$
Year	Exchange Rate currency/US$	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Millions)	Nominal GDP (Millions)
1990	4.25	71.36	11.06%	21,539.30	5,068.07
1991	4.25	74.06	3.78%	22,558.60	5,307.91
1992	4.25	78.83	6.44%	23,118.10	5,439.55
1993	5.81	87.37	10.84%	24,490.50	4,215.23
1994	5.93	95.07	8.81%	29,312.00	4,943.00
1995	6.00	100.00	5.18%	31,697.00	5,282.83
1996	6.19	103.41	3.40%	34,448.10	5,565.12
1997	6.30	107.15	3.63%	36,552.40	5,801.97
1998	6.60	113.17	5.61%	38,197.10	5,787.44
1999*	6.27	117.02	3.40%	41,044.90	6,546.24

Source: IMF; *Source: Central Bank of T&T

Between 1993 and 1998, Trinidad & Tobago experienced economic growth. Increased construction, growing activity in the transport, wholesale and retail sectors, and investment have all contributed to the growth. The unemployment rate has decreased, and the external current account deficit improved slightly. However, there remains a fiscal balance deficit. Overall, the economic indicators suggest that Trinidad & Tobago holds a stable financial position. Caribbean Community Organization members, including Trinidad & Tobago, are currently in the planning stages to develop a single Caribbean currency for all 12-island nation members. One of the developments of the common market to go into effect in June 2000 is the introduction of free movement of people and capital among the island countries.

GDP is currently experiencing an upward growth trend, and in 1999 it was up 5.1% from 4% in 1998. This is greatly attributed to the oil and gas sector. Unemployment is typically high in Trinidad & Tobago. The unemployment rate fell from 10% in the third quarter of 1997 to 9.5% in the third quarter of 1998. The steady decline in the unemployment rate is the result of an increase in the number of jobs in the construction (27.7% increase), transport, communications, and the wholesale/retail sectors.

The inflation rate began an upward trend in 1998, due mostly to an increase in food prices, which increased by approximately 14% between 1997 and 1998, again, due to decline in agriculture from the El Niño weather. Due to a strong anti-inflationary monetary policy and a stable exchange rate, Trinidad & Tobago has been able to keep inflation in check with rates dropping back to 3.4% in 1999, the lowest since 1996.

Interest rates have also remained high, with nominal rates on six-month deposits at approximately 7.9% by 1998. Relatively high interest rates limit the amount of private investment within the country.

Housing Market

The housing market in Trinidad and Tobago has remained fairly stable. In 1990, the stock of occupied housing was 271,871 units. Of this number, 74% were owned (201,930 units), 13.26% were privately rented (36,040 units), and 0.47% were classified as squatter housing (1,289 units).

Construction has not met the demand for new housing units. In fact, construction of new units decreased from an average of 6,700 per year in the late 1980s, to 1,502 new units in 1990. Demand greatly outweighs the supply.

Mortgage Market

There are several mortgage-financing companies in the country. The National Insurance Board (NIB), the National Housing Authority (NHA), and the Trinidad & Tobago Mortgage Finance Company (TTMF) are the public sector organizations. Loan associations, trust companies, life insurance companies, pension funds and commercial banks are the private lending companies.

The NHA mainly lends to lower-income groups, implementing government housing programs. It provides 30-40 year mortgage loans of up to TT$ 100,000 at rates from 5.5% to 7% depending on family income (capped at TT$ 4,500 per month) and the amount of the loan. The TTMF is controlled, owned, and financed by both the Government and the National Insurance Board. This institution provides loans ranging from TT$ 142,000 – 237,000 at rates between 8.0% and 9.5%, with up to 30-year maturities. The NIB does not originate loans itself. Instead, the company employs seven financial institutions as agents which grant the loans on its behalf and manage/service them in exchange for fees ranging from 0.75% per annum to 1.5% per annum of loans outstanding less principal.

There are several mortgage program options available. The First Time Home Buyers Program is offered to those who are purchasing a home for the first time with a property value less than TT$ 300,000 with rates ranging from 8-9%. These loans are offered by Trinidad & Tobago Mortgage Finance Co., Ltd, for those persons who do not already own property. For property or construction costs priced in excess of TT$ 150,000 to a maximum of TT$ 600,000, there is Home Mortgage Bank's Homeowner Prime Mortgage Facility at 11.5% with a maximum term of 25 years.

The Home Mortgage Bank (HMB) is a secondary market facility with the primary function of buying and selling loans between financial institutions. It finances its purchases through the issuance of debt and mortgage-backed securities. The main goals of this institution are as follows:

- Develop and maintain an organized secondary market that will increase the availability of mortgage financing
- Contribute to the mobilization of long term savings for housing investment
- Support the development of a national system of housing finance to promote the growth and development of the capital market

As of the end of 1998, HMB had TT$ 630 million of bonds outstanding. In 1999 it began issuing Guaranteed Mortgage Investment Certificate (GareeMICs), the first collateralized mortgage obligation securities to be offered in the local capital market. This instrument is a type of mortgage-backed security with several maturity tranches.

Policy Developments

- There has been a major downsizing and refocusing of the public sector with an extensive program of divestment of public employment. Most commercial enterprises are being privatized, and privatization is being introduced to public utilities.
- The US Department of Housing and Urban Development announced in October 1999 that, along with Overseas Private Investment Corporation, efforts would be made to introduce a domestic and international mortgage market in the Caribbean and Central America. This will include the development of financing tools to promote US private investors to originate mortgages for the low-income public sector at competitive rates.

Sources and References

1. IDB Country Assessment: Trinidad & Tobago, by Badrul Haque (Country Economist)
   Available: http://www.iadb.org/regions/re3/sep/tt-sep.htm
2. CIA World Fact Book, 1999
3. World Bank. Trinidad & Tobago. Available: http://www.worldbank.org
4. “Profile of Caribbean.” Available: http://www.onerealtorplace.com
5. The Home Mortgage Bank. Available: http://www.homemortgagett.com
6. Central Bank of Trinidad & Tobago. Available: http://www.central-bank.org.tt

Contacts

1. Home Mortgage Bank
   Calder Hart, General Manager
   14th Fl. Central Banki ng Bldg.
   PO Box 255
   Port of Spain, Trinidad
   Tel: 1.868.625.4972
   Fax: 1.868.623.3167

2. Trinidada & Tobago Mortgage Finance Co Ltd
   Kazim Ali, Managing Director
   Albion Court 61 Dundonald St.

PO Box 1096
Port of Spain, Trinidad
Tel: 1.868.624.7776
Fax: 1.868.623.9212
Email: ttmfceo@tstt.net.tt

3. Caribbean Assoc. of Housing Finance Institution CASHFI
17 Belmont Road
Kingston, Jamaica 5
Tel: 1.876.968.3855
Fax: 1.876.926.5598

United States

Economic Background

Year	Exchange Rate US$/ECU	Consumer Price Index	Change In Consumer Prices	Nominal GDP (Billions)
1990	1.27	85.74	5.40%	5,803.2
1991	1.24	89.37	4.23%	5,986.2
1992	1.30	92.08	3.03%	6,318.9
1993	1.17	94.80	2.95%	6,642.3
1994	1.19	97.27	2.61%	7,054.3
1995	1.31	100.00	2.81%	7,400.5
1996	1.27	102.93	2.93%	7,813.2
1997	1.13	105.34	2.34%	8,300.8
1998	1.12	106.97	1.55%	8,759.9
1999		109.31	2.19%	9,248.5

Source: IMF

The U.S. economy is in the midst of an unprecedented post-war boom. For the fourth consecutive year, the economy expanded by more than 4 percent, well above the average growth rate, since 1973 of 3 percent. The booming stock market continued to improve household balance sheets, and the average unemployment rate fell to a 30-year low of 4.2 percent. Consumer price inflation accelerated to 2.2 percent during the year from 1.6 percent in 1998. Concerns about further acceleration led the Federal Reserve to raise its federal funds rate target by three-fourths of a percentage point in the second half of 1999. Real interest rates remain rather high, reflecting the large demand for capital to fund the record current account deficit and record levels of consumer debt.

Interest Rates				Mortgage Rates		Gov't Bond Yields	
Year	Interbank Money Market	CD Secondary Mkt Rate	Treasury Bill Rate	30 Year Fixed Rate	1 Year ARM	Short-term	Long-Term
1990	8.10%	8.15%	7.51%	10.39%	9.15%	8.25%	8.55%
1991	5.69%	5.84%	5.41%	9.66%	8.26%	6.81%	7.86%
1992	3.52%	3.68%	3.46%	8.50%	6.59%	5.31%	7.01%
1993	3.02%	3.17%	3.02%	7.48%	5.74%	4.44%	5.87%
1994	4.20%	4.63%	4.27%	8.17%	6.42%	6.26%	7.08%
1995	5.84%	5.92%	5.51%	8.18%	7.13%	6.26%	6.58%
1996	5.30%	5.39%	5.02%	7.98%	7.06%	5.99%	6.44%
1997	5.46%	5.62%	5.07%	7.89%	6.90%	6.10%	6.35%
1998	5.35%	5.47%	4.82%	7.19%	6.46%	5.14%	5.26%
1999	4.97%	5.33%	4.66%	7.44%	6.53%	5.49%	5.64%

Source: IMF, Federal Housing finance Board. Mortgage Rates effective

Housing Markets

The U.S. housing market began 2000 on a high note. Buoyed by the longest economic expansion in history, home sales, homeowner rates, and the value of residential construction all set new records in 1999. Thanks to strong income growth, housing affordability remained good for most Americans despite rising interest rates, home prices and rents. Despite more than a full percentage point increase in interest rates over the course of the year, both home sales and the value of residential construction reached new highs in 1999. Single-family starts continued to climb during the year reaching their highest level since 1978. Multi-family starts fell slightly however.

Thousands

Year	Housing Starts	% Multi-family	Housing Completions	New Single Family Home Sales	Existing Single-Family Home Sales
1990	1,192.7	22.0%	1,308.0	534	3211
1991	1,013.9	14.0%	1,090.8	509	3220
1992	1,199.7	12.0%	1,157.5	610	3520
1993	1,287.6	10.0%	1,192.7	666	3802
1994	1,457.0	15.0%	1,346.9	670	3946
1995	1,354.1	18.0%	1,312.6	667	3812
1996	1,476.8	18.0%	1,412.9	757	4196
1997	1,474.0	20.0%	1,400.5	804	4382
1998	1,616.9	19.0%	1,474.2	886	4970
1999	1,666.5	18.0%	1,636.1	907	5197

Source: HUD

House prices in most parts of the country increased. The rate of increase has exceeded the general inflation rate in each of the last 6 years. House price appreciation has become much more uniform across the country as the economic expansion continued.

House Prices

Year	Average New Single-Family House Price	Median New Single Family House Price	Average Existing Single Family House Price	Median Existing Single Family House Price
1990	149,800	122,900	118,600	95,500
1991	147,200	120,000	128,400	100,300
1992	144,100	121,500	130,900	103,700
1993	147,700	126,500	133,500	106,800
1994	154,500	130,000	136,800	109,900
1995	158,700	133,900	139,100	113,100
1996	166,400	140,000	141,800	115,800
1997	176,200	146,000	150,500	121,800
1998	181,900	152,500	159,100	128,400
1999	195,800	160,000	168,300	133,300

Source: HUD

Powered by strong income and employment growth, the national homeownership rate reached a new annual high of 66.8% in 1999 and continued to climb across all geographic regions, age groups and racial/ethnic groups. Homeownership has gotten an extra lift from mortgage industry innovation and outreach to low income borrowers. With the introduction of low down-payment products, flexible underwriting standards and improved risk assessment tools, lenders have helped millions of low-income families buy first homes. For example, loans to low income buyers in metropolitan areas increased by 55% between 1993 and 1998, compared with a 40% increase in loans to high income borrowers.

Mortgage Market

Originations of single-family mortgages reached $ 1.3 trillion in 1999. That volume was the second highest total ever, down 10 percent from the preceding year's record. Quarterly originations declined steadily during the year, as the rising-rate environment decreased borrower incentives to refinance existing mortgages. Originations of conventional mortgages declined more than total originations, as home loans insured by the Federal Housing Administration and guaranteed by the Veterans Administration increased to record levels. FHA originations rose 19 percent in 1999, while VA production increased 16 percent. The share of mortgages with FHA or VA financing rose to 13 percent, the highest since 1994. Net new insurance of conventional loans written by private mortgage insurers increased slightly to nearly $ 189 billion. Originations of sub-prime mortgages rose 7 percent to $ 160 billion, 12.2 percent of the conventional market.

Residential Mortgage Market (Billions US$)

Year	1-4 Family Mortgage Debt Outstanding	New Originations Gross	Outstanding 1-4 Family Mortgage Debt/GDP	Total Mortgage Debt Outstanding
1990	2,617	458	45.1%	
1991	2,781	562	46.5%	
1992	3,036	894	48.0%	4,091
1993	3,225	1,020	48.6%	4,261
1994	3,355	769	47.6%	4,393
1995	3,510	639	47.4%	4,604
1996	3,722	785	47.6%	4,902
1997	3,960	859	47.7%	5,217
1998	4,328	1,450	49.4%	5,728
1999*	4,647	1,310	50.2%	6,181

* 1999 3rd quarter debt outstanding; Source: Federal Reserve, OFHEO

Higher mortgage rates altered the characteristics of conventional, single-family mortgages originated in 1999. According to Freddie Mac, the average monthly share of mortgages made to refinance existing loans was 32 percent, down from 52 percent in 1998. During 1999, the refinance share fell from 50 percent in the first quarter to 22 percent in the third and fourth quarters. With rising rates, fewer homebuyers refinanced their homes to reduce their payments. More who did so took out equity by increasing the size of their loan. As in the previous year, the vast majority of refinancing borrowers chose long-term fixed-rate loans.

Rising mortgage rates also led more borrowers to choose ARMs over fixed-rate loans in 1999. The ARM share of conventional single-family originations, after reaching a low in the fourth quarter of 1998, had climbed a year later to its highest level since the third quarter of 1996. According to the Federal Housing Finance Board survey, the ARM share of the market on a quarterly average basis rose from 12 percent in 1998 to nearly 22 percent in 1999. The decline in FRMs was much more pronounced in the jumbo market. The fixed-rate share of jumbo loans, based on the number of mortgages, fell from 60 percent in 1998 to 41 percent in 1999. The fixed-rate share of conforming mortgages fell from 90 percent to 83 percent. Many depository institutions prefer to retain adjustable-rate loans in their portfolios rather than sell them to the secondary market, because they can earn attractive spreads with acceptable levels of interest rate risk by financing ARMs with short-term liabilities.

The proportion of single-family mortgages originated by the largest lenders continued to increase in 1999, consistent with the consolidation trend in the financial services industry. The top 25 originators accounted for 57 percent of all single-family originations in 1999, up from 55 percent in 1998 and more than double their market share in the early 1990s. Lenders continued to rely on multiple channels of production to originate loans. Of all single-family mortgages originated in 1999, 26 percent were acquired from brokers, 36 percent came from correspondent lenders (lenders who fund a loan and sell it to another lender), and 39 percent were originated through retail channels.

The U.S. mortgage market is characterized by specialization in origination, servicing and funding. Thus, the same lenders that originate do not necessarily service or fund loans. Servicing has also become more consolidated with the top 10 servicers controlling 40.6% of the market. The largest originators and servicers in 1999 were:

Top Originators *Twelve Months 1999*			**Top Servicers** *December 31, 1999*		
	Institution	$Billions		Institution	$Billions
1.	Chase Home Finance	93.4	1.	Chase Home Finance	310.9
2.	Norwest Mortgage	82.0	2.	Bank America	294.6
3.	Countrywide	75.4	3.	Norwest Mortgage	279.6
4.	Bank America	63.2	4.	Countrywide	245.8
5.	Washington Mutual	41.5	5.	Washington Mutual	159.5
6.	Fleet Boston Financial	35.1	6.	GMAC Mortgage Corp	150.9
7.	HomeSide Lending, Inc.	29.0	7.	HomeSide Lending, Inc.	150.7
8.	ABN AMRO Mortgage Grp.	28.3	8.	Fleet Mortgage Group	150.5
9.	Cendant Mortgage Services	25.6	9.	First Nationwide Mortgage	96.5
10.	National City Mortgage Co.	23.6	10.	Citicorp Mortgage Inc.	89.6
	Top 10 Totals	497.0		Top 10 Totals	1928.7
	Others	778.0		Others	2826.4
	Total	**$1310.0**		**Total**	**$4,755.1**

Source: Inside Mortgage Finance

Residential 1-4 family mortgage debt outstanding grew by 9% in 1998 and 7% through the third quarter of 1999 to a level of $ 4.6 trillion. Total mortgage debt outstanding including multi-family and commercial mortgages was $ 6.18 trillion with multi-family accounting for 6% and commercial accounting for 17% of the outstanding. Residential mortgage debt-to-GDP was 50% and total mortgage debt-to-GDP stood at 68%.

An increasing share of mortgage debt outstanding is in the form of mortgage-backed securities. Through the third quarter of 1999, 47% of all mortgage debt was securitized and approximately 59% of single-family mortgage debt was securitized.

Market Share by Investor 1999 (3^{rd} Q)

Current Year	Debt Outstanding
Comm Banks	23.0%
Savings Banks	11.0%
Life Cos	4.0%
Federal Agency	5.0%
Mortgage Pools/Trusts	47.0%
Individuals/Other	10.0%

Source: Federal Reserve

The main issuers of mortgage-backed securities in the US are the large government-sponsored enterprises, Fannie Mae and Freddie Mac. These institutions purchase A quality mortgage loans and fund themselves either through the issuance of mortgage pass-through securities or debt (callable and straight). Between them, Fannie Mae and Freddie Mac funded $ 1.96 trillion in residential mortgage loans as of the end of 1999 or more than 42% of residential mortgage debt outstanding. Their balance sheet breakdown at the end of 1999 is shown below:

	Fannie Mae	Freddie Mac
Retained Mortgage Portfolio	$522,977	$322,914
MBS Outstanding	$679,169	$537,883
MBS Issuance	$300,689	$239,783
Net Income	$3,912	$2,223
Capital	$17,629	$11,525

Source: OFHEO

In recent years, the enterprises have substantially increased the size of their retained mortgage portfolios (up 3.5 times for Fannie Mae and 14 times for Freddie Mac since 1990). This trend reflects the ability of the enterprises to issue callable debt, which allows them to better manage the optionality of their retained mortgage portfolios. The growth of the enterprises has raised some concerns about encroachment on the private sector. In 1999 a group called FMWatch was created to monitor their activities and lobby against expansion of their charters.

As government-sponsored enterprises, Fannie Mae and Freddie Mac are chartered by the US government but owned by the public (shares are traded on the New York Stock Exchange). Their government charter provides a number of benefits including a line of credit from the US Treasury and exemption from Securities and Exchange Commission registration of their securities. Their charters are limited to providing a secondary market in residential mortgages.

The other major government player in the secondary market is Ginnie Mae (the Government National Mortgage Association). Ginnie Mae is a government agency and its securities are issued with a payment guarantee backed by full faith and credit of the U.S. Ginnie Mae provides timely payment guarantees on pools of FHA and VA-insured mortgages issued primarily by mortgage companies. As of the third quarter of 1999, there were $ 582 billion in outstanding GNMA-guaranteed securities.

There are more than 20 private conduits that issued mortgage-backed securities in the US. The loans they securitize are jumbo loans (with outstanding balances greater than the loan limits imposed on the enterprises) or less than A quality loans which are ineligible for purchase.

The Federal Home Loan Bank System provides collateralized loans to its member institutions funded by the issuance of debt (straight and callable). There are 12 district banks and Bank System members include Federal and State chartered thrift institutions, commercial banks, credit unions and insurance companies. As of the end of 1999, the FHLBs had $397.8 billion in outstanding advances to their members with total assets of $ 583 billion and total debt (consolidated) obligations of $ 525 billion.

In 1997, the Federal Home Loan Bank of Chicago introduced a new program, Mortgage Partnership Finance, in which member institutions originate loans on behalf of the FHLB and provide credit enhancement in the form of a small subordinated tranche and earn out of a portion of the servicing fee. Under the MPF Program, the FHLB provides the funding for MPF loans (the liquidity risk) and manages their interest rate and prepayment risks and the lender bears a majority of the credit risk. This program differs from that of Fannie Mae and Freddie Mac in which the credit risk is transferred to the enterprise.

Sources and References

1. Joint Center for Housing Studies of Harvard University, The State of the Nation's Housing 2000
2. Morgan Stanley Dean Witter, Inside the Global Economy, May 2000
3. IMF: International Financial Statistics, 2000
4. Office of Federal Housing Enterprise Oversight, Report to Congress 2000
5. U.S. Department of Housing and Urban Development, U.S. Housing Market Conditions, August 2000
6. Inside Mortgage Finance, various issues
7. Freddie Mac, Secondary Mortgage Markets: Market Trends 1999, April 1999

Contacts

1. Federal Home Loan Bank of Chicago,
   11 E. Wacker Dr.,

Chicago IL 60601,
Tel: (312) 565-5689
http://www.fhlb.com

2. Fannie Mae
   3900 Wisconsin Avenue
   NW, Washington, DC 20016-2892
   Tel: (202) 752-7000
   http://www.fanniemae.com

3. Freddie Mac
   8200 Jones Branch Drive
   McLean, VA 22102-3110
   Tel: (703) 903-2000
   http://www.freddiemac.com

4. Mortgage Bankers Asssociation of America
   1919 Pennsylvania Avenue, NW.
   Washington, DC 20006-3438
   Tel: (202) 557-2700
   Email: membership@mbaa.org clientservicesonline@mbaa.org
   http://www.mbaa.org/about/

5. Office of Federal Housing Enterprise Oversight (OFHEO)
   1700 G Street, NW 4th Floor
   Washington, DC 20552
   Tel: (202) 414-3800
   http://www.ofheo.gov

6. U.S. Department of Housing and Urban Development
   451 7th Street,
   SW, Washington, DC 20410
   Tel: (202) 708-1112
   http://www.hud.gov

7. Countrywide Home Loans
   4500 Park Granada
   Calabasas CA 91302,
   Tel: 1-800-556-9568
   http://www.countrywide.com