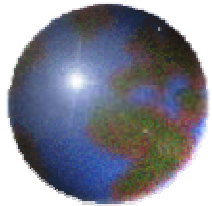


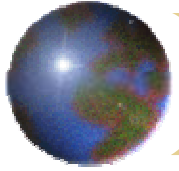
*Organized by The Milken Institute
& Asian Institute of International
Financial Law*



ASIAN BOND MARKET FORUM

University of Hong Kong
Hong Kong
November 11-14, 2003

**Presentation By: Pamela Lamoreaux - IFC
Manager Housing Finance Group – Global Financial Markets**

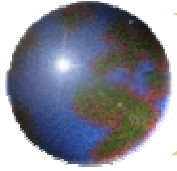


What Are Multilaterals



- ✦ Development Organizations
- ✦ Similar Missions/Mandates
 - Alleviate/reduce poverty
 - Help people and the environment by providing resources, sharing knowledge, building capacity and forging partnerships in the public and private sector
- ✦ Catalytic Role
- ✦ Promote democracy
- ✦ Promotes sustainable development
- ✦ Competitors but partners

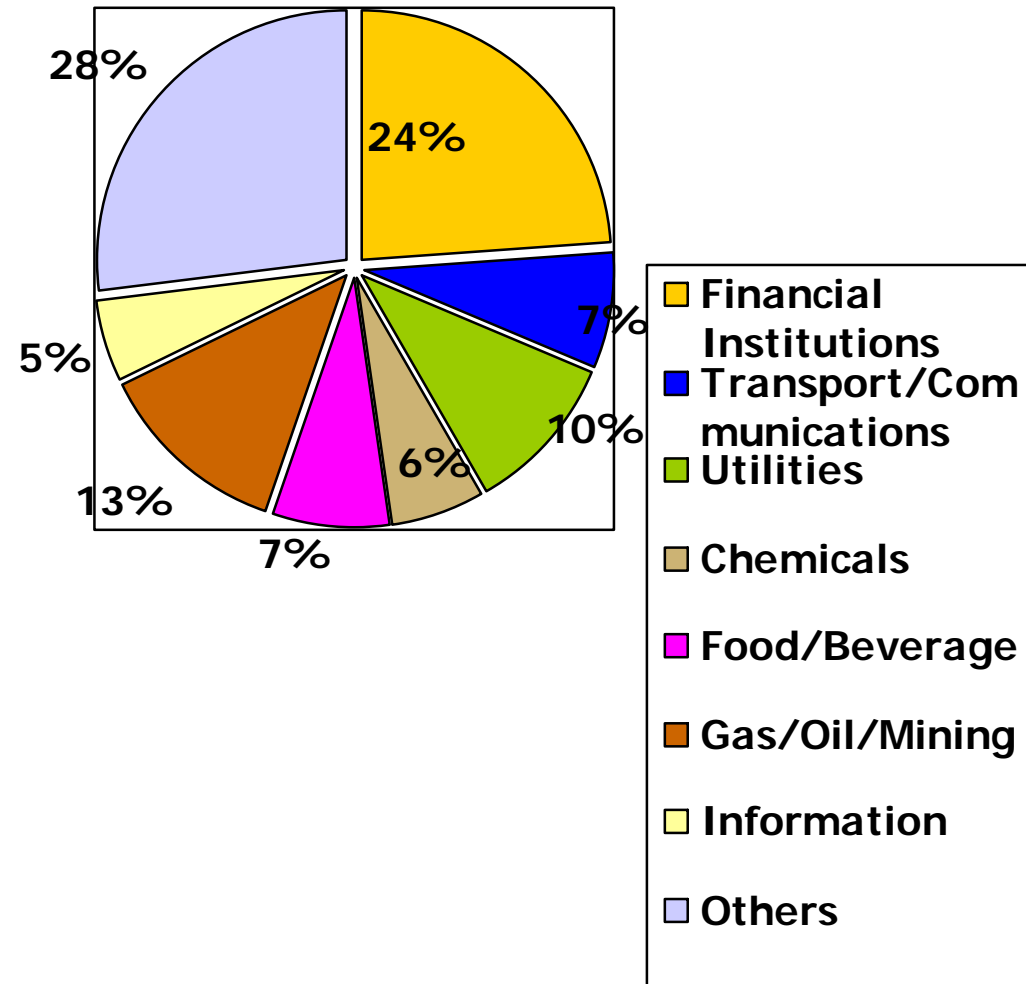


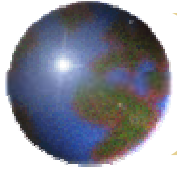


Overview – IFC – WB Group



- ✦ Founded: 1956
- ✦ Capital: US\$ 2.45 bn
- ✦ Shareholder: 175 member countries (must be IBRD member)
- ✦ Rating: AAA
- ✦ Staff: 2,000
- ✦ Headquarters: Washington, DC
- ✦ Many country offices
- ✦ Own Portfolio at YE 2003: US\$ 12.0 bn
- ✦ Clients: Private Companies (at least 51% private ownership)
- ✦ Developing/transition countries : member countries
- ✦ Products: Long-term Loans, Syndicated loans, Equity, Mezzanine Financing, Equity Funds, Guarantees, Technical Assistance





Housing Finance at IFC

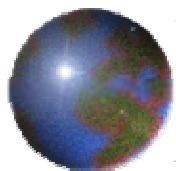


✦ New unit within Global Financial Markets Department

- Formed 7/1/02
- FY03 approval: \$57m
- FY03 commitment: \$22m



✦ Objective: housing finance market development in emerging market countries through advisory mandates and investments



Housing Finance at IFC



WORK PROGRAM:

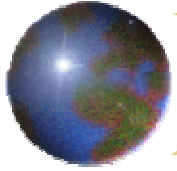


Primary market:

- Origination (lending to mortgage banks)
- Warehousing lines of credit
- Infrastructure support (credit insurance; equity investments in intermediaries)
- Capacity building (through technical assistance)

Secondary Market:

- MBS securitizations (mezzanine investment; partial credit guarantees)
- Regulatory reform (through technical assistance)



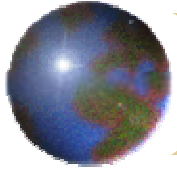
ROLES OF IFC – HOUSING



BRING GLOBAL PERSPECTIVE



- ✦ Structuring
- ✦ Technical Assistance –helping “first time” issuers
- ✦ Legal and Regulatory assistance (drafting legislation, legal documents, regulatory environment)
- ✦ Partial guarantee on senior or mezzanine piece
- ✦ Purchase of certain tranches of bonds
- ✦ New innovative structures – Non-performing loans, etc.
- ✦ Bring international best practice
- ✦ Encourage other local and international investors

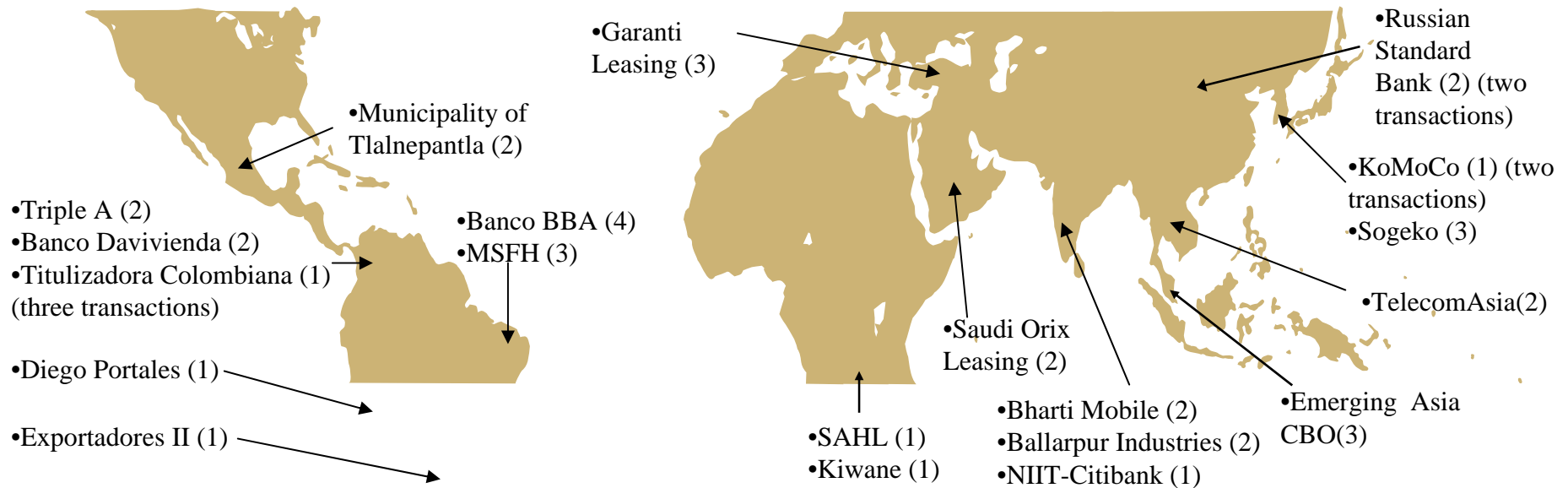


IFC's TRANSACTIONS

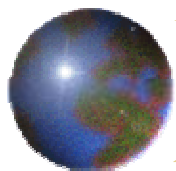


STRUCTURED FINANCE

- Completed 24 transactions in 12 different countries
- Raised a total of US\$2,641mn with IFC's credit exposure of only US\$464mn (mobilized US\$836.75mn during FY03)



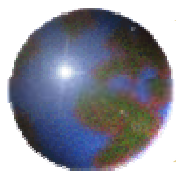
- (1) Local currency securitization
- (2) Local currency partial guarantee
- (3) Cross-border securitization
- (4) Cross-border partial guarantee



IFC MORTGAGE SECURITIZATIONS



COUNTRY/ INSTITUTION	TYPE OF INSTITUTION	TYPE OF STRUCTURE	ROLE OF IFC
<i>COMPLETED</i>			
South Africa – South Africa Home Loans	Primary Lending	CMO	<ul style="list-style-type: none">Helped launch first mortgage-backed, local currencyPurchase mezzanine tranches
Korea - KoMoCo	Secondary Market	CMO	<ul style="list-style-type: none">Help in structurePurchase several tranches (first foreign investor in Won)
Mexico – Su Casita	Primary Lending	CMO	<ul style="list-style-type: none">IFC invested in mezzanine tranche
Colombia - Hitos	Secondary Market	CMO	<ul style="list-style-type: none">IFC helping to structureIFC guarantee on senior tranche

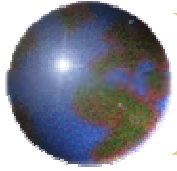


CURRENT HOUSING FINANCE PROJECTS



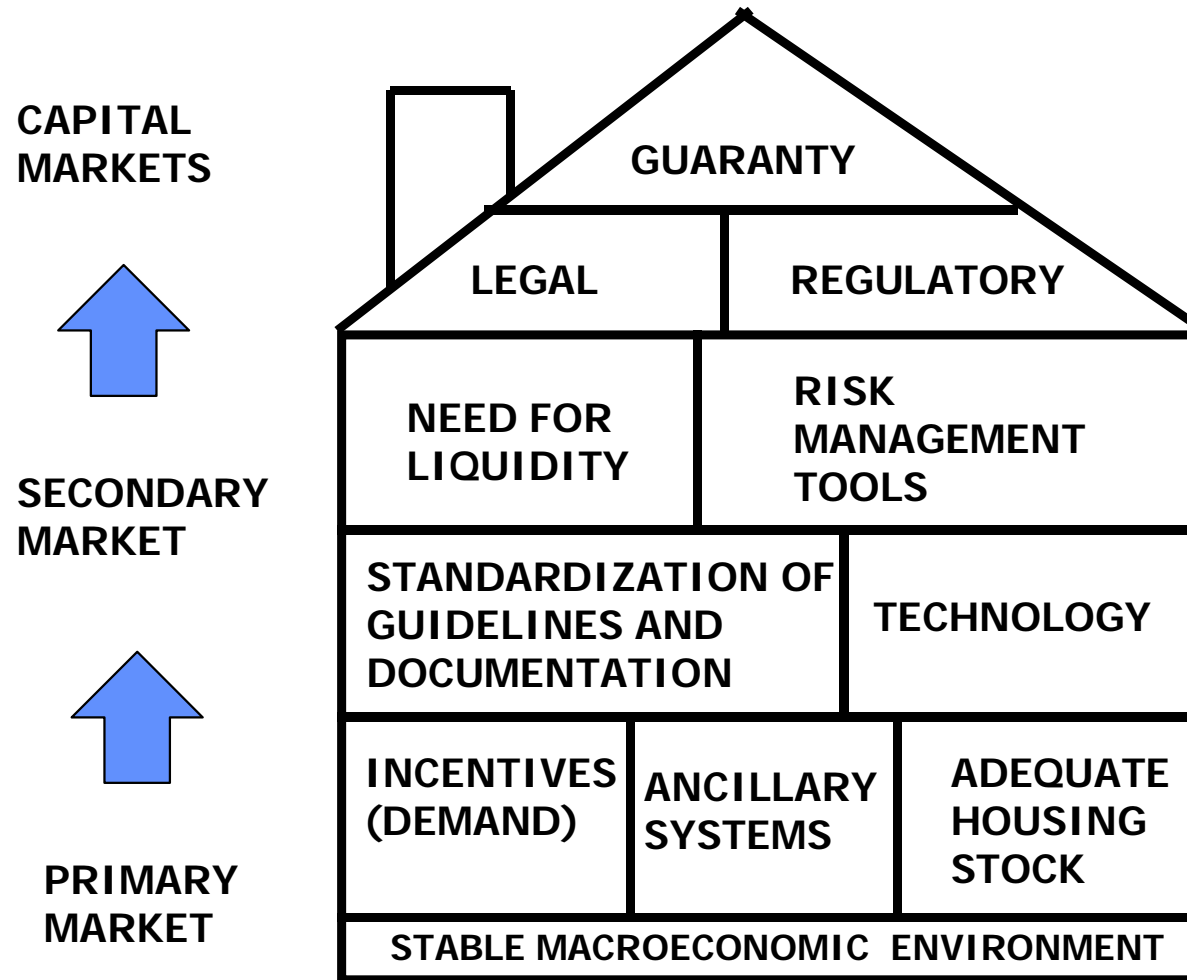
Where have we helped?

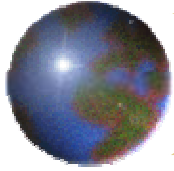
Secondary Market Institutions	Primary Market Institutions	On-Lending	Capital Market or Structured Finance
<ul style="list-style-type: none"> ✦ Argentina – BACS ✦ Colombia – Hitos ✦ Korea – KoMoCo ✦ West Bank/Gaza – PMHC ✦ Caribbean - ECHMB 	<ul style="list-style-type: none"> ✦ Argentina - BHN ✦ Bangladesh – Delta BRAC ✦ China – Advantage China ✦ Egypt - EHFC ✦ India – HDFC, Birla, Dewan, Sundarem, ✦ Mexico –Su Casita ✦ Morocco - CIH ✦ Pakistan – IHFL ✦ Romania - Rofin ✦ South Africa – South Africa Home Loans (SAHL) ✦ Sri Lanka – NDB 	<ul style="list-style-type: none"> ✦ Bulgaria – BACB ✦ Baltic States – BalAEF ✦ Croatia – ERSTE Bank ✦ Estonia – Eesti Uhispank ✦ Russia – Delta Credit ✦ Lebanon – Librano Francaise, Bylblos Bank, Fransabank, BBAC 	<ul style="list-style-type: none"> ✦ Colombia – Hitos ✦ India –NHB ✦ Korea –KoMoCo ✦ Mexico – Su Casita ✦ South Africa –SAHL



OVERVIEW OF HOUSING FINANCE

BUILDING BLOCKS OF SUCCESSFUL SYSTEM

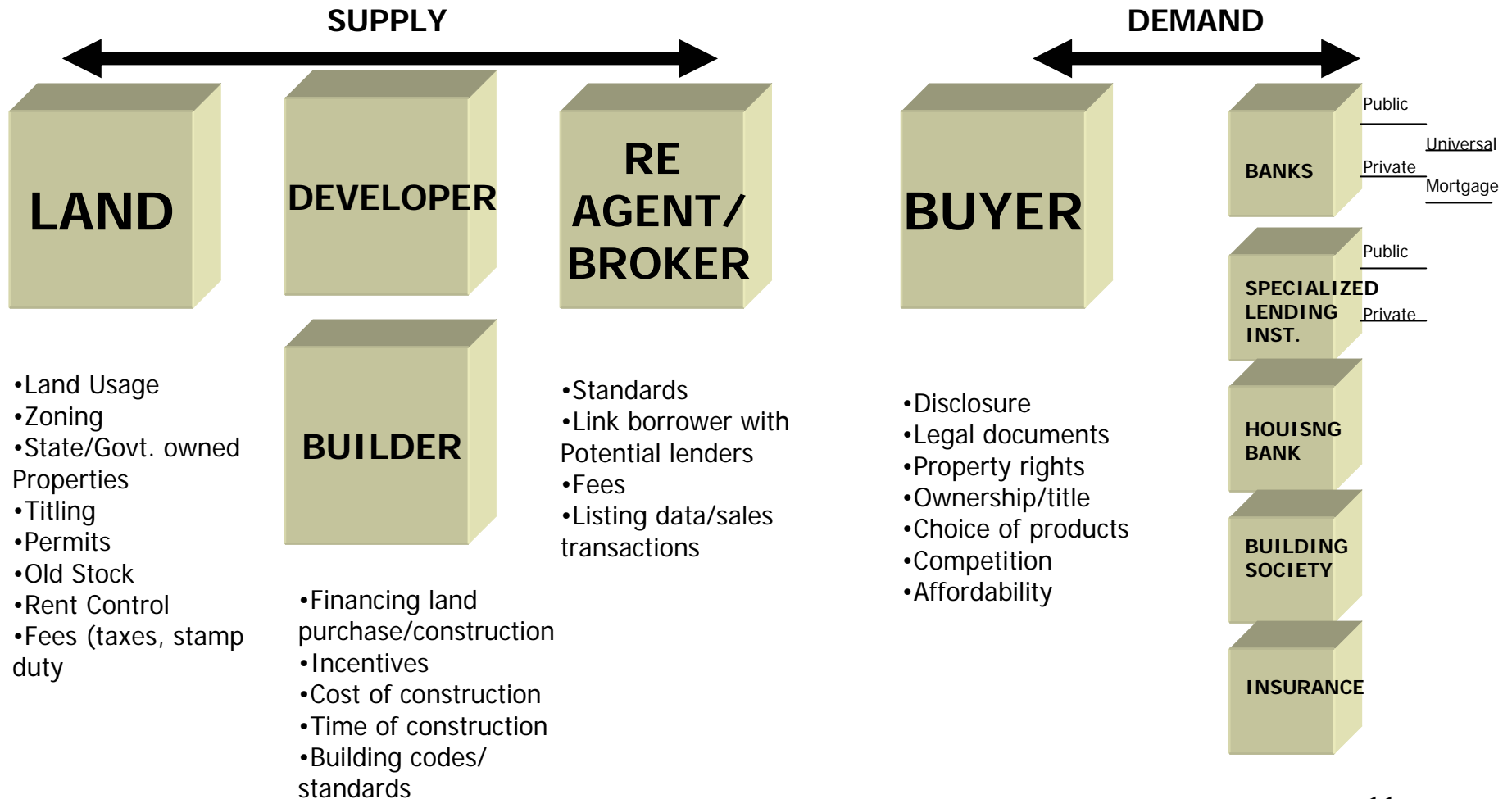


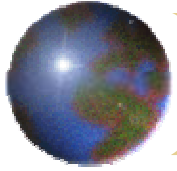


OVERVIEW OF HOUSING FINANCE

GOVERNMENT HOUSING POLICY/LEGAL STRUCTURE

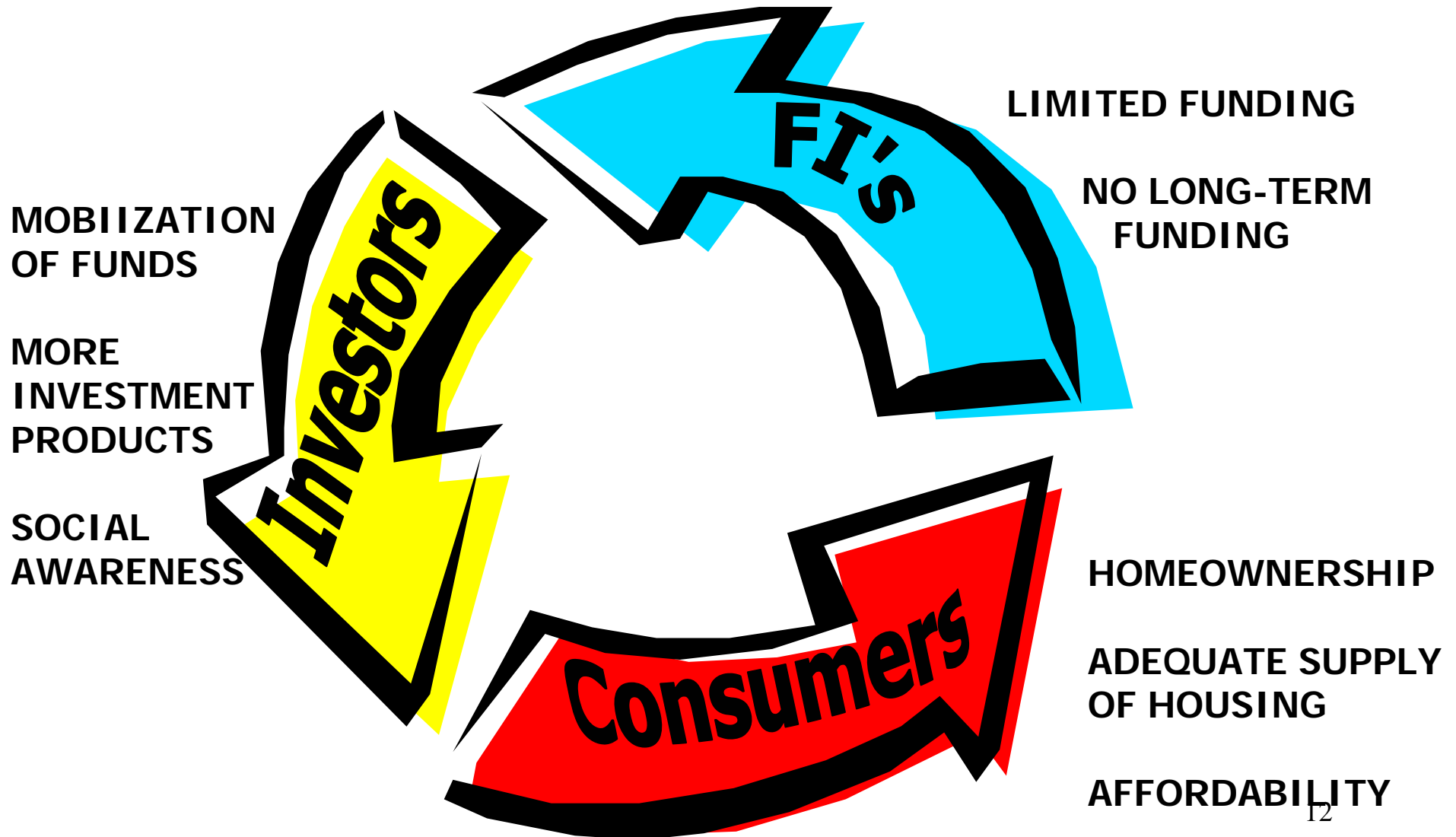
REGULATORY (CONTRACT ENFORCEMENT, CONSUMER RIGHTS, SAFETY/SOUNDNESS)

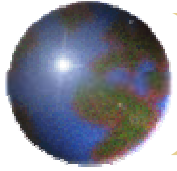




WHAT IS A SECONDARY MARKET?

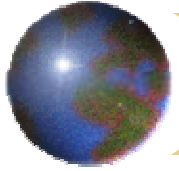
NOT NECESSARILY AN INSTITUTION





Preconditions For a Secondary Market

- ✦ The most critical factors to support the **viability** and **sustainability** of a secondary mortgage market are:
 - ❑ Stable or improving macroeconomic environment
 - ❑ Sufficient legal, tax and regulatory framework
 - ❑ Robust primary market operations and standardization
 - ❑ Capital market preparedness and appetite for MBS
 - ❑ Economic incentives for secondary market participation

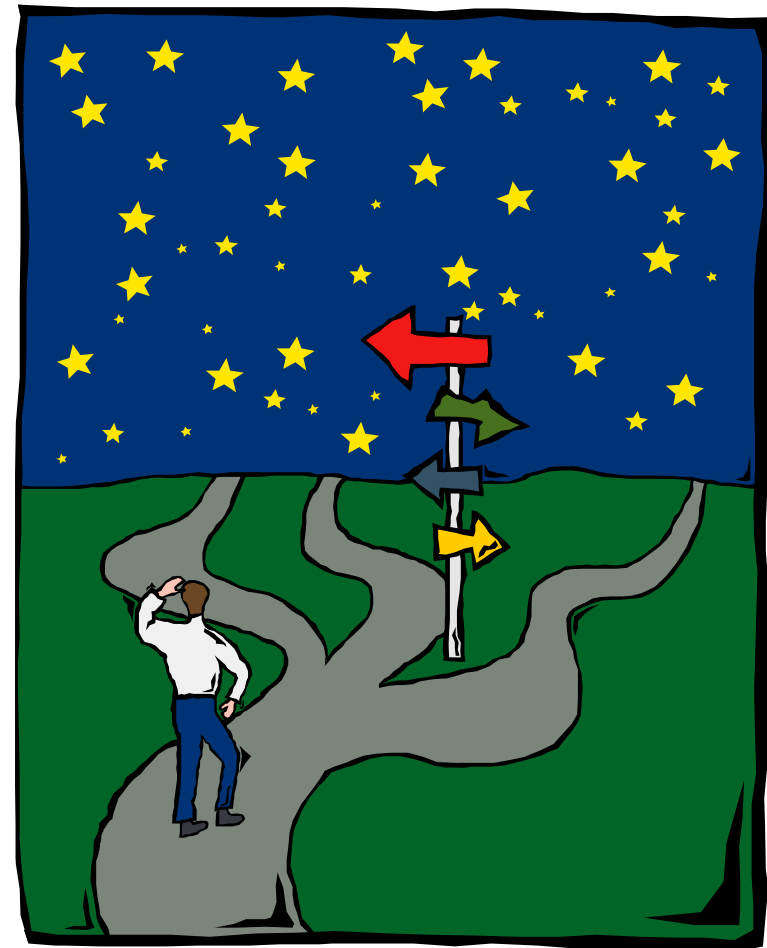


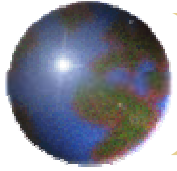
WHICH WAY TO GO



No one model or
“right answer”

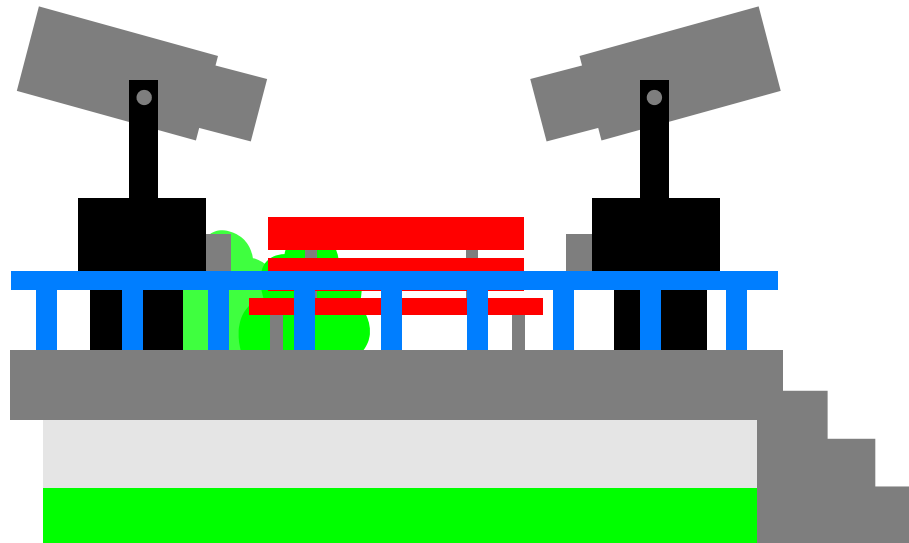
Well-thought out
plan between
government
and private
participants





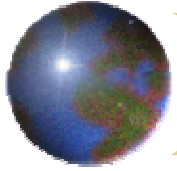
BEFORE YOU BEGIN

WHEN DEVELOPING A SECONDARY MARKET YOU HAVE TO LOOK BACKWARDS AND FORWARD BEFORE YOU BEGIN



- Originators – volumes and Capabilities, liquidity
- Mortgage products (types, Interest rates, quality)
- Legal and regulatory environment
- Investors
- Role of government

- Needs of investors
- International and domestic investor appetite
- Rate environment
- Legal and regulatory
- Development of new instruments



MACROECONOMIC ENVIRONMENT



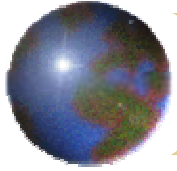
CONSUMERS

FI'S

INVESTORS

- ✓ Population
- ✓ Unemployment
- ✓ GDP Growth
- ✓ Inflation
- ✓ **Mortgages as a percentage of GDP**
- ✓ **Interest rates (deposits, lending)**
- ✓ Breakdown of various assets held by banks (concentration)

- ✓ Asset quality (delinquency, foreclosure, payoff rates)
- ✓ Key Drivers of Economy
- ✓ Disposable Income
- ✓ Savings rate
- ✓ Number of building permits issued
- ✓ Number/amount of new homes constructed
- ✓ Number/amount of new home sales



MARKET PLAYERS AND OPERATIONS

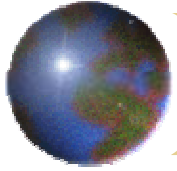


CONSUMERS

FI'S

INVESTORS

- ✓ **Types of Institutions (commercial banks, housing finance companies, govt. housing bank, building society)**
- ✓ **Undue competition from the Government**
- ✓ **Interest Rates/fees**
- ✓ **Funding sources/liquidity**
- ✓ **Types of products (e.g. variable/floating rate, fixed rate, construction, rehab, 2nd hand)**
- ✓ **Standardized lending and servicing guidelines and documentation**
- ✓ **Asset quality**
- ✓ Adequate insurance providers (e.g. fire/hazard, credit default, life, unemployment)
- ✓ Credit bureaus
- ✓ Standardized property evaluation guidelines and qualified evaluators
- ✓ Technology capabilities (underwriting, delinquency control, foreclosures, cash management, securitization)
- ✓ Marketability and liquidity of the housing market
- ✓ Good corporate governance and on-going concern



LEGAL, TAX & REGULATORY ISSUES

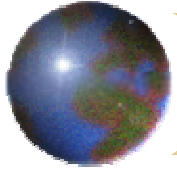


CONSUMERS

FI'S

INVESTORS

- ✓ Regulators for all FI's
- ✓ Laws for mortgage origination (e.g. loan-to value ratios, concentration of mortgage assets)
- ✓ Ownership (sale and purchase of real estate)
- ✓ Clear title/registration
- ✓ Enforceable liens
- ✓ Transferability/assignability
- ✓ Foreclosure/repossession
- ✓ Eviction
- ✓ Legal documentation
- ✓ Trust/SPV/SPC Laws
- ✓ Regulators of Securitization and any Securitization Company(ies)
- ✓ Securitization and Securitization Company Laws
- ✓ Notification/approval by borrower
- ✓ Tax structure
- ✓ Stamp duty
- ✓ Clean-sale Treatment
- ✓ Recourse
- ✓ Disclosure requirements



CAPITAL MARKET DEVELOPMENT

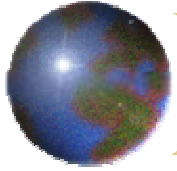


CONSUMERS

FI'S

INVESTORS

- ✓ Good regulator(s)
- ✓ Existence and depth of capital markets (adequate information on all aspects of the size and nature of the market)
- ✓ Domestic and international capacity and appetite
- ✓ Investment guidelines for various investors
- ✓ Interested and active investor base (preference and market share)
- ✓ Knowledge of investors of various investment products
- ✓ Supportive broker/dealer network (structuring, placement, underwriting)
- ✓ Efficient and regulated clearing/settlement systems
- ✓ Rating agency(ies)
- ✓ Active and deep swap market
- ✓ Information service providers (on assets and investment products)
- ✓ Structure of exchanges to facilitate trading of securities
- ✓ Standardized pricing, valuation and allocation procedures
- ✓ Disclosure requirements
- ✓ Liquidity of markets
- ✓ Credit enhancement providers



INCENTIVES

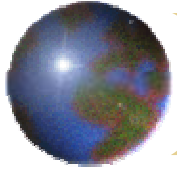


CONSUMERS

FI'S

INVESTORS

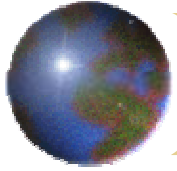
- ✓ Tax Treatment
- ✓ Risk Weighting – Capital Relief
- ✓ Provisioning
- ✓ Liquidity Ratios
- ✓ Clean Sale Treatment
- ✓ International “Best Practice” bring new capital
- ✓ Better data



VARIOUS FUNDING MECHANISMS



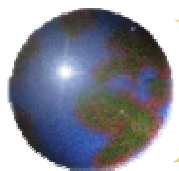
Country	Commonly Used Funding Tools
Canada	<ul style="list-style-type: none">➤ Term and Demand Deposits➤ Guarantee Investment Products➤ Few Mortgage-Backed Bonds or Mortgage-Backed Securities
U.S.	<ul style="list-style-type: none">➤ Mainly Mortgage-Backed Securities and Real Estate Mortgage Investment Conduits (REMIC) –issued by secondary market entities or individual institutions➤ Some Term and Demand Deposits➤ Corporate Debt (Federal Home Loan Banks)
Denmark	<ul style="list-style-type: none">➤ Mortgage-Backed Bonds➤ Some Short-Term Bullet Bonds for Adjustable Rate Mortgages
Germany	<ul style="list-style-type: none">➤ Mainly Phandbriefe (savings scheme with mortgage banks)



VARIOUS PRODUCTS

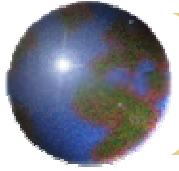


BONDS	MORTGAGE- BACKED SECURITIES	OTHER
European Mortgage Model – bond financed -on balance sheet -specialized portfolio lenders	Off balance sheet – bankruptcy remote	Unsecured corporate debt – not directly related to mortgages
Mortgage-backed bonds with various structures	Pass through (GSE’s in US) vs. Structured (tranches, enhancements)	Contract savings – deposit financed, specialized institutions offering loan- linked savings contracts
Federal Home Loan Bank Model – bond financed for member institutions	Credit Enhancements may include senior/subordinated, guarantees, mortgage default insurance, pool insurance, monoline insurance, reserve pool	Federal Home Loan Bank Model – loans to member institutions using mortgages as pledged collateral, but not taken off balance sheet



Mortgage Bond Issuers in Europe

Country	Type(s) of issuer
Denmark	Mortgage banks
Germany	Mortgage banks & public sector credit institutions
Spain	Any credit institution
France	Specialised banks (sociétés de crédit foncier) & centralised issuing institution
Luxembourg	Mortgage banks
Austria	Mixed mortgage banks & Landeshypothekenbanken
Sweden	Mortgage companies
Finland	Mortgage credit banks
Switzerland	Centralised issuing institutions



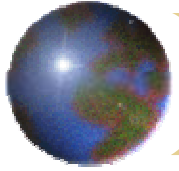
Selected Investments



COLOMBIA

Legal Environment:

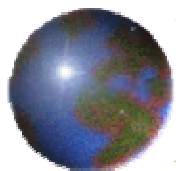
- Law 546 of 1999 permits creation of securitization companies including mortgage SPVs
- MBS benefit from tax exemption (through 2006)
- Banks required to originate “social housing loans” for low income sector, backed by 100% government guarantee (“VIS loans”)
- Structuring challenge: how to include VIS and non-VIS loans in same pool?



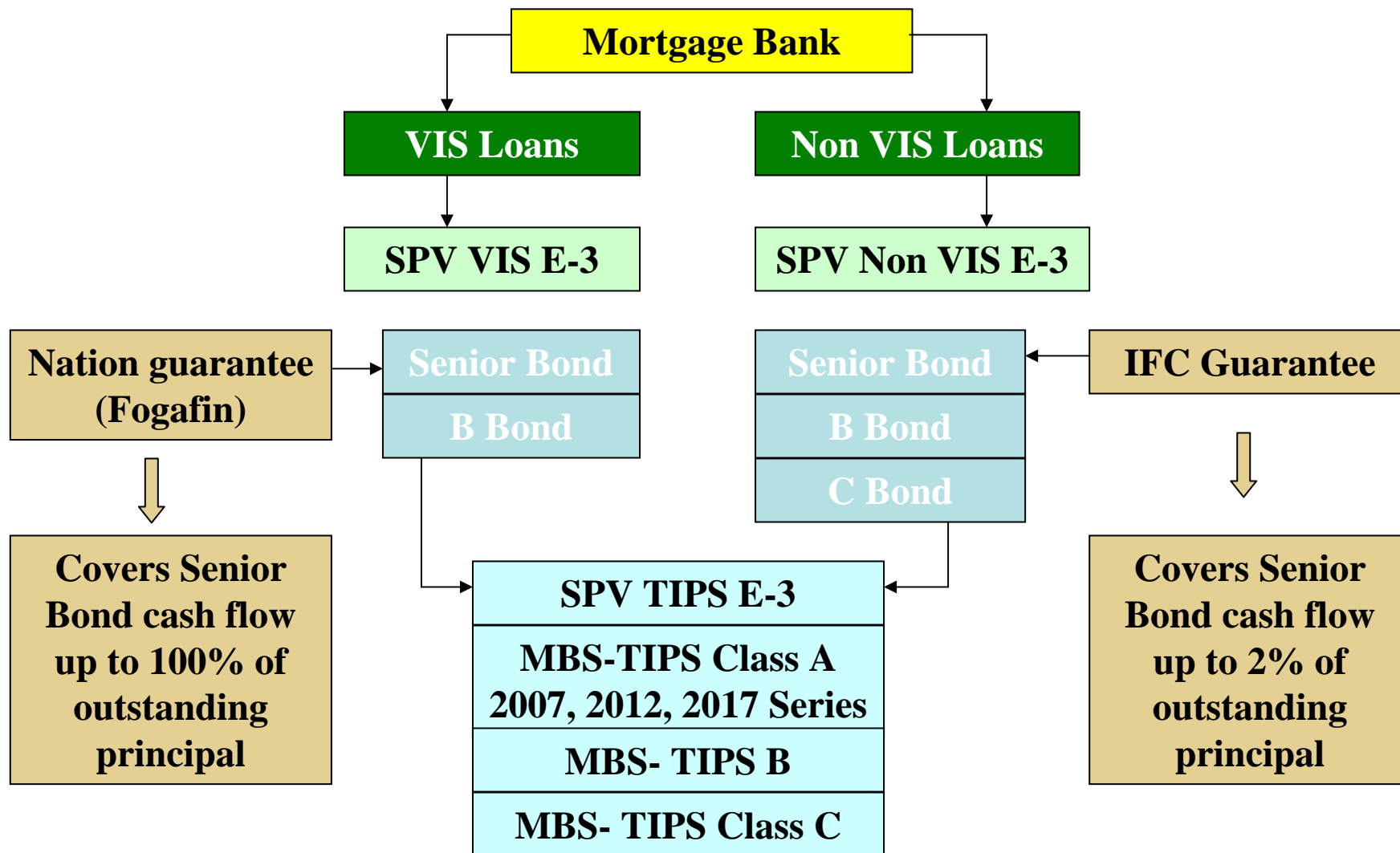
Colombia - MBS

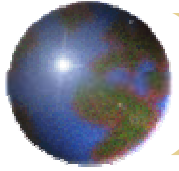


- ✦ IFC formed *Titularizadora de Colombiana* ("Hitos") with 5 leading mortgage banks in 2001
- ✦ **Hitos: the only MBS company in Colombia**
- ✦ Completed 3 successful MBS issues
- ✦ **Complex structure involves VIS loans (gov't guarantee) and non-VIS loans (IFC partial guarantee)**
- ✦ Senior tranche (95%) rated domestic AAA
- ✦ **Mezzanine (1%) rated A**
- ✦ Equity (4%) unrated and retained by sellers



Hitos MBS Guarantees Structure





Colombia - MBS

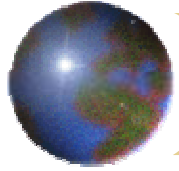


✦ **Benefits to Colombia:**

- **Capital market development: second biggest growth market**
- **Diversification of investment instrument**

• **Benefits to Mortgage Banks:**

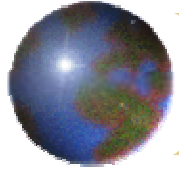
- **More efficient use of capital**
- **Improved profitability: servicing income**
- **New source of funding for housing loans**



Mexico: Construction Financing

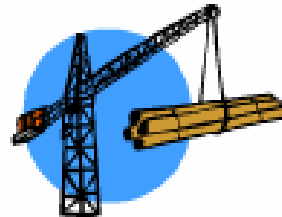
- ❖ **New product for IFC -- long-term euro and local currency (peso) financing for a Mexican mortgage company targeted at construction phase**
- ❖ **Mexican company could tap IFC loan to fund “sub-loans” to developers for construction financing and pre-construction financing (roads, water lines, sewers and other infrastructure) in accordance with specified criteria**

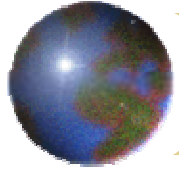




Mexico: Construction Financing

- ✦ **Construction “Sub-loans” will be assigned to a trust to secure IFC; thus segregated from other assets of Mexican mortgage company**
- ✦ **Sub-loan repayments will accumulate within the trust and be available to fund additional sub-loans**





Mexico: Construction Financing

✚ Take-out risk is minimized:

- **INFONAVIT** collects mandatory contributions from private sector employers/employees, which are applied to mortgage payments of moderate income home buyers
- **FOVISSTE** and **FONHAPO** fill a similar role for public sector employees

