Speech by

TURAN EROL, Ph.D.
CHAIRMAN
CAPITAL MARKETS BOARD of TURKEY

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Dear Participants,

It is a great pleasure for me to address this distinguished audience and to share my views on the mortgage covered bonds which is an integral part of the mortgage system.

You know that every year about 5 trillion US dollars are globally transferred to homebuyers through the capital markets. And we see that, securitization is the main channel for these flow of funds. Covered bonds and mortgage backed securities are the principle secondary market instruments of housing finance.

In 2006, the annual volume of securitization issuance was nearly 4 trillion US dollars and 80 percent of this belonged to US issuers. 80 percent of the US issuance was made in the form of mortgage backed securities. Europe takes only 14 percent of the securitization issuances. As for the covered bonds, the continental Europe takes the lead. In 2006, over 350 billion Euros of covered bonds were issued, and by mid-2007, the outstanding amount of covered bonds reached nearly 2 trillion Euros.

Dear Participants,

As Capital Markets Board, our mission is not only to supervise and regulate, but also to promote the development of the capital markets. The new mortgage system that has recently been introduced is a good example of the latter. We have played a pioneer role in preparing the Mortgage Law and provided the coordination between the related institutions. As a late comer, we had the chance to examine different legislations and ongoing discussions in the market and shape our legislation accordingly. “Mortgage Law”, passed in March 2007, made significant amendments in related regulations which strengthen legal background for both primary and secondary market development.

Six months after the law, we completed our secondary legislations on mortgage covered bonds and mortgage backed securities. Besides the covered bonds, asset covered bonds, secured by other types of assets which are not qualified for mortgage covered bonds, are also defined in the law. We think that, the general framework of the Mortgage Law regarding the secured borrowing and securitization will be very useful for a broad area from insurance to infrastructure financing.

As you all know, covered bonds which are widely used in the Continental Europe, are debt instruments secured by a cover pool of mortgage loans or public-sector debt to which investors have a preferential claim in case of default. These instruments are deemed as the most liquid fixed income securities after the government bonds in Europe.

When we look at European practices, we observe three common characteristics of covered bonds. First is the status of the issuer which are regulated institutions as banks, second is the exemption from general insolvency law, and third is the adequate cover. We have incorparated all those aspects both in the mortgage law and the related secondary legislation.

Dear Participants,

Among the European countries, Spanish case would make the best example for Turkey. We expect a growth in the mortgage and housing markets similar to that of Spain. Spain had the highest growing mortgage market in Europe for the last 10 years. Its market size is about 500 billion euros, as much as 50 percent of its GNP. Another good example is South Korea, as a rapidly growing emerging market. The size of the market is over 200 billion US dollars reaching to 25 percent of its GNP. From the experiences in these two countries, we expect a mortgage financing reaching to 35 percent of our GNP, an average of 150 billion US dollars, at the current GNP level. Today, we are glad to see that some of our banks have started to offer mortgage loans with the effective interest rate below 1 percent.

Dear Participants,

Turkey has a moderate size but very dynamic capital markets. Thanks to a strong regulatory background, no serious problems had been faced during the recent financial turbulences including the one we had in May 2006 and the recent sub-prime turmoil. We believe that, especially low debt ratio that is around 18 percent, high profitability ratio with a return on equity around 17 percent and high growth potentials for Turkish companies are the main charms of our corporate sector.

Turkish mortgage system does not allow subprime type of mortgage loans. The rate of nonperforming loans over the whole housing loans in Turkey is less than half percent. However, we as regulatory authorities, are aware of some potential risk factors in both primary and secondary mortgage markets. As regulators, we pay utmost attention to real payment capacity of borrowers, financial soundness of lenders, and proper appraisal and credit rating.

I appreciate this conference as an opportunity to share different experiences and congratulate Türkiye İş Bankası and German VDP.

Thank you very much for your attention.