



CAPITAL MARKETS BOARD OF TURKEY

Speech by

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Dear Participants,

First of all, I appreciate this organization as an attempt to exchange valuable experiences in housing finance and convey my warmest welcome to all distinguished participants.

We know that every year about 5 trillion US dollars are globally transferred to homebuyers through the capital markets. More than 50 percent of mortgage funding in the US comes from securitization and the rest from primary markets. In contrast, only 5 percent of mortgage funding in Europe comes from securitization. Unlike the US, about 20 percent of mortgage are funded by covered bonds and a majority 70 percent by deposits.

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” made significant amendments in related regulations which strengthen legal background for both primary and secondary mortgage development.

Soon after the law, we completed our secondary legislations on mortgage covered bonds and mortgage backed securities. We are currently working on four secondary legislations. These are asset covered bonds, asset backed securities, mortgage finance corporations (MFCs) and appraisal association. Asset covered bonds and asset backed securities will liquidate assets other than mortgage loans and are secured instruments as well. MFCs are capital market institutions and established with the purpose of taking over and transferring receivables arising from housing finance and issuing capital market instruments. I want to stress that we do not envisage a government guaranteed or sponsored corporation system. We expect that MFCs will complement the role of banks in terms of mortgage finance and will catalyze fund transfer from secondary markets.

Mortgage appraisal is one of the key elements determining the loan-to-value (LTV) ratio and tracking the value of that loan put as a collateral into the securitization pool. Hence, we have also designed the house appraisal system and are planning to establish an appraisal association to serve as a self regulatory body.

Dear Participants,

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 its 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 finance reaching to 35 percent of our current 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 effective interest rate below 1 percent. This progress in interest rates will hopefully increase the demand towards mortgage loans granted by the end of this year.

On the supply side, we believe that real estate investment trusts will play a vital role in improving housing standards through their projects. These projects form only a part of their current 3 billion US dollars portfolios. In addition, real estate investment trusts, as capital market institutions providing transparency and liquidity, attract the equity investments of international investors.

Moreover, we foresee that developing institutional investors base in Turkey, particularly pension funds, will contribute to secondary mortgage markets as mortgage related securities are in line with their long-term investment strategies.

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.

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 home buyers financial soundness of creditors, and proper appraisal and credit rating.

Finally, we see that our banks interested in housing finance have already started to accumulate their pools for mortgage instruments. It is no doubt that first comers will have their competitive advantage and also the respect from the Turkish market.

I am sure that this conference will be an opportunity for better understanding of Turkish mortgage market potential and I therefore congratulate Dünya Gazetesi and IFC for their contribution.

Thank you very much for your attention.