

# Mortgage Loans in the Czech Republic

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## Overview

- What is the Mortgage Loan?
- Mortgage Loans and Mortgage Bonds
- Credit Process
- Repayment
- Market Overview

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## WHAT IS THE MORGAGE LOAN?

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## Mortgage Loan in brief



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## How (where) to record a mortgage?

### Land Register

- Every piece of land is registered
- ...including property rights
- Register is public



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## Land Register Map



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## Certificate of Title

Certificate Number  
Region

Seznam nemovitostí na LV  
Číslo LV: 12884  
Katastrální území: Stodůlka (275541)

Property Rights

Vlastníci, jiní oprávnění  
Vlastník právo: Právo  
Campus Park a.s., Vodičkova 712/51, Nové Město, 11000 Praha

Certificate comprises  
more parcel numbers

Pozemky  
Parcelní číslo: 2819/01  
2819/02  
2819/03

Buildings

Stavby  
Číslo: 1395/01  
Stavby č.p. 2000 na pozemku p.č. 1395/01

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## MORTGAGE LOANS & MORTGAGE BONDS

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## Mortgage Loan

### Act on Bonds (190/2004):

A mortgage loan is a loan whose redemption... is secured by lien (right of pledge) over real estate (property)... if the receivable from the loan does not exceed twice the amount of the mortgage value of the mortgaged real estate.

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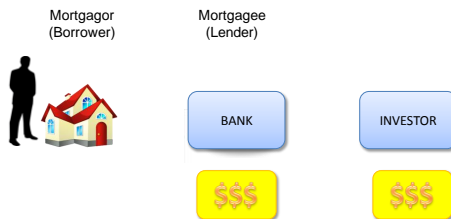
## Mortgage Bonds

### Act on Bonds (190/2004):

Mortgage bonds are bonds whose nominal value... are fully covered (backed) by the receivables arising from mortgage loans (proper coverage) and, in some cases, by an alternative method (alternative coverage). The designation "hypoteční zástavní list" is a part of the title of this bond. Other securities may not bear such designation.

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## Mortgage Bonds in Pictures



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## Mortgage Bonds

- Mortgage Loan can exist without Mortgage Bonds (Bank can lend its "own" money)
- Mortgage Bonds are backed by mortgage => low risk => high price

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## Mortgage Bonds

### Act on Bonds (190/2004):

- Receivables used for backing the MB may not exceed 70 % of the pledge value of the mortgaged property securing such receivables
- The mortgaged property may not be encumbered with third-person lien which would be of the same or greater priority (except of lien of bilding society and some state liens etc.)

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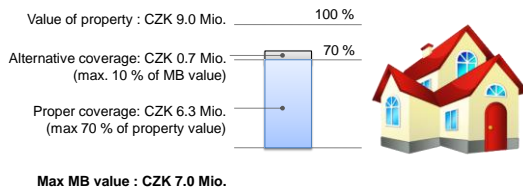
## Alternative coverage of MB

### Act on Bonds (190/2004):

- The alternative coverage of obligations arising from mortgage bonds in circulation issued by one issuer is possible only up to 10% of such nominal value and only by distinct means (cash, deposits with the Czech National Bank, government bonds etc)

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## Coverage of MB



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## CREDIT PROCESS

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## Credit Process

- Collection of informations
- Risk assessment
- Decision (interest rate)
- Contract
- Filing the Mortgage
- Release of money

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## Collection of informations

- What is the loan for?
- What is the collateral?
- Who is owner of the property?
- What is value (price) of collateral?
- Who is the borrower?
- ...etc

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## LTV = Loan To Value

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$$LTV = \frac{\text{Loan Value}}{\text{Property Value}}$$

- Property value = CZK 10 m (100 %)
- Loan value = CZK 7 m
- => LTV = 7/10 = 70 %

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## Credit Risk Assessment

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### Basic rule

- Incomes of borrower must cover installments (joint debtor can help)
- incomes vs expenses of borrower
- stability of incomes
- value of collateral
- stability of the collateral value

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## Credit Risk Assessment

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- $EL = LGD \times PD \times EAT$
- Expected Loss
- Loss Given Default
- Probability of Default
- Exposure At Default

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## Decision

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### Interest Rate

- interest rates on the finance market (MB)
- + risk premium
- + premium
- => interest rate of the loan

### Conditions

- mortgage
- joint debtor
- insurance (property, incomes)

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## What affects the Interest Rate?

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- Financial markets
- Risk of default (EL, LTV)

### Type of mortgage

- LTV
- ARM (Adjustable Rate Mortgage) vs FRM (Fixed Rate Mortgage)
- Maturity
- Fixed term vs open term (early repayment)

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## REPAYMENT

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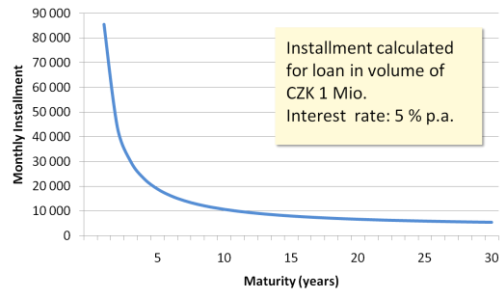
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## Repayment

- Virtually any repayment plan is possible
- BUT usually periodic installments (monthly payments) that include principal and interest are used.
- Installments can be easily calculated by means of financial mathematics (based on loan volume, maturity and interest rate).
- Excel functions (PMT, NPER, RATE, PV)

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## Example



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## FRM vs ARM

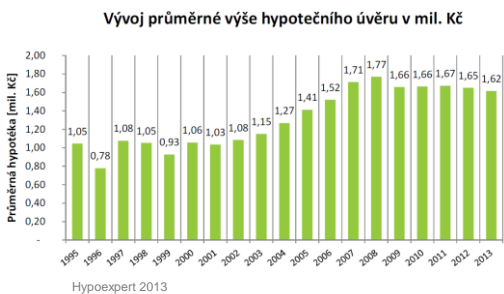
- **Adjustable Rate Mortgage** – interest rate changes with a predetermined index usually lower interest rate / higher IR risk
- **Fixed Rate Mortgage** – interest rate is fixed for given term (or until maturity)  
By the end of the term, bank makes new offer of IR – customer can accept or deny (= repay) usually higher interest rate / lower IR risk

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## MARKET OVERVIEW

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## Average Volume of mortgage Loan



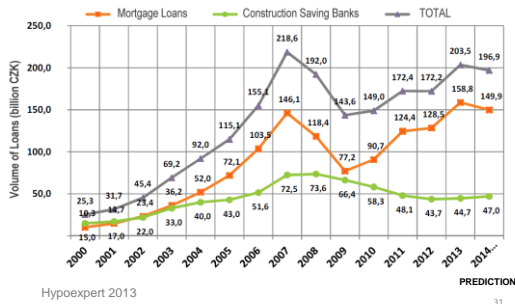
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## Refinanced Mortgages

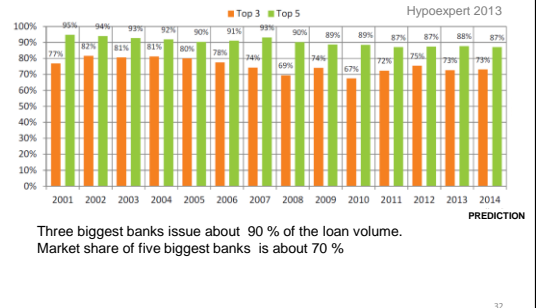


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### Housing Loans in CR



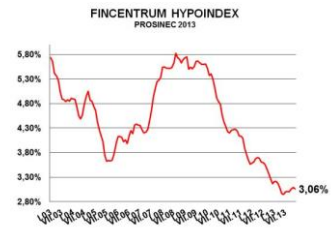
### Market Concentration



### Market Share 2013-2014

	2013	2014 (est.)
HB	26,4%	26,6%
KB	21,2%	21,3%
ČS	25,0%	25,2%
RB	7,6%	7,7%
UCB	6,9%	6,5%
Wüstenrot	3,6%	3,6%
Sberbank	1,9%	1,9%
GEMB	1,4%	1,5%
Rest	6,0%	5,7%

### Mortgage Loans Interest Rates



Average interest rate comprising all

END