MINISTRY
FOR NATIONAL ECONOMY

UPDATE

on

HUNGARY'S STRUCTURAL REFORM PROGRAMME (HSRP)

THE GOVERNMENT'S PROGRAMME ON FX-DENOMINATED MORTGAGES

31 May 2011

Background

The Government is determined to address the potential social and financial stability problems that arose from wide-scale foreign currency mortgage lending activity that took place in the years preceding the crisis. A solution has been built around an acceptance that the burden of the problem should be shared between the debtors, the creditors and the State, who all played a role in building the system which created the current problem. As a consequence, and also in order to minimize the budgetary impact of the proposed measures, it is essential and inevitable that all of these stakeholders should contribute to addressing the imbalance. In particular, the Government has devoted special attention to addressing the systemic problem that the problems of the FX-denominated mortgages has created.

In this respect, different types of assistance will be offered to those who are still able to meet their obligations but who are threatened by potential adverse exchange rate developments, and those who can no longer be expected to be able to repay their debt. Therefore, a multi-pillar programme will be implemented with the following acting as the cornerstones of the programme:

1. Fixing of the exchange rate for calculating the monthly instalments
2. Interest subsidy scheme
3. National Asset Management Company
4. Lifting of the foreclosure moratorium
5. Enabling EUR-denominated mortgage lending

‘Cornerstones’

1. Exchange rate fixing programme

Exchange rate fluctuations will be eliminated and the monthly mortgage instalments will be reduced for orderly paying FX-debtor households. The creditor will fix the exchange rates used to specify the monthly instalments on imaginary beneficial rates of 180 HUF/CHF, 250 HUF/EUR and 200 HUF/100JPY. The debtor will be expected to pay the monthly instalments to the creditor based on these rates until 1st January 2015.

The difference between the instalments based on the official spot exchange rates and the beneficial rates will be collected in a “Special Account” of the debtor (i.e. it remains the obligation of the original debtor). The Special Account will be financed by the creditors, and will be denominated in HUF, carrying an interest rate aligned to the benchmark Hungarian interbank rate, the 3-month BUBOR.

For the debtor it is voluntary to enter the scheme. Eligibility criteria includes: the debtor needs to be of Hungarian origin; the loan must be mortgage-backedwith an initial value of less than HUF 30 million at the time of the loan agreement; and, the debtor must not be in delay of more than 90 days in paying instalments.

The Government backs the Special Account in full through a State Guarantee. The creditors are obliged to pay a ca. 1.5% p.a. fee for the guarantee until 1st January 2015 (the exact rate is to be verified with European regulation), and proportionally less thereafter (the guarantee applies to 25% of the Special Account as at 1st January 2015).

2. Interest subsidy scheme

The Government introduces an interest subsidy scheme for those debtors who are behind in the repayment of their mortgage-backed loans by more than 90 days. The interest subsidy can be requested if the debtor concerned sells his / her home and moves to cheaper accommodation.

The subsidy will be provided for up to five years and it can be a maximum of 3.5% in the first year, to be decreased by 0.5 percentage points each year thereafter. The yearly budgetary impact of this pillar cannot exceed HUF 1.5 billion.

3. National Asset Management Company (NAMC)

The Government proposes to establish a National Asset Management Company. The new institution will help affected households in two ways:

(1) It may purchase homes of eligible debtors – in close cooperation with local governments – from the banks and rent them to the original owner. To apply for the assistance of the National Asset Management Company, the households have to prove their eligibility (criteria will include among other elements of the household's profile, the number of children, monthly income etc.). The budget appropriation of this institution will be strictly constrained.

(2) The National Asset Management Company will also build new homes for households in need in the scope of public work programmes. These homes will be offered for rental to the families in need.

4. Lifting of the foreclosure moratorium

The Government will lift the foreclosure moratorium. However, in order to protect the real estate market and to address social issues, it will implement a quota system for foreclosures. Between 1st July 2011 and 30th September 2011, only higher-value properties can be subject to foreclosure (if the initial value exceeds 30 million HUF and the loan value exceeds 20 million HUF). In Q4 2011 2% of the mortgages in arrears of more than 90 days can be sold. The quarterly quotas for 2012, 2013 and 2014 will be 3%, 4% and 5% respectively. As of 2015 the quota system as well as any foreclosure moratorium will cease to exist.

5. Enabling EUR-denominated mortgage lending

The Government has initiated the renewal of EUR-denominated mortgage lending in order to be fully compliant with EU-rules. At the same time, strict prudential and consumer protection constraints will be put in place in order to address potential financial stability concerns. As such, the borrower will require an income in the currency concerned of at least 15 times the minimum wage to apply for an EUR-denominated mortgage-backed loan.

Ministry for National Economy