

## Residential mortgages, first half of 2012

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### Introduction

After a growth in the stock of mortgages until 2010, a narrowing in the mortgage market and a decline in the number and volume of loans started in 2011 and continued in the first half of 2012. On the one hand, it resulted from tighter rules for forint loans and from a moratorium on foreign currency loans (measures introduced last year); on the other hand, from the option of early repayment of foreign currency loans at a discounted exchange rate in the second half of this year. It was possible to use forint loans to participate in the early repayment scheme. As a result of repayments and swing loans, the stock of forint loans as well as the number and volume of approved mortgages and mortgage payouts increased.

As of 30 July 2012, mortgages totalled HUF 3,618 billion – accounting for nearly 13% of the 2011 GDP – 55% of which was made up of foreign currency loans.

### Stock of mortgages

The total volume of domestic mortgages and within this the high share of foreign currency loans put a heavy burden on the borrowers, which increasingly threatened the repayment. A number of measures were adopted to manage this situation, e.g. the introduction of an early repayment scheme, an exchange rate fixing, a foreclosure quota and a home protection interest subsidy as well as the establishment of the National Asset Management Company.

From the first half of 2012, among financial institutions dealing with home loans, 25 banks, 3 mortgage banks, 129 savings and credit associations as well as 2 home savings banks<sup>1</sup> provided data on home loans. Since 2002, there has been an ongoing increase in the total value of mortgages. Over the last 10 years, growth peaked with a more than two-fold annual total increase between 2002 and 2003. Between 2004 and 2008 the total and foreign currency denominated stock steadily grew then stagnated in 2009. In 2010, total loans and foreign currency loans increased by over 9% and 14% year-on-year respectively. However, this increase resulted from the weak forint against the euro and especially the Swiss franc and from non-performing loans and not from additional foreign currency loans.

At the end of 2011, total home loans decreased for the first time in the history of the statistical data collection on home loans. This tendency continued in the first half of 2012: compared with year-end 2011 the stock of all loans and that of foreign currency loans decreased by more than

14 and 25 per cent respectively. This drop resulted from the schemes introduced from 2011 (the previously mentioned early repayment scheme and the moratorium on taking out new foreign currency loans).

Figure 1

### Stock of home loans

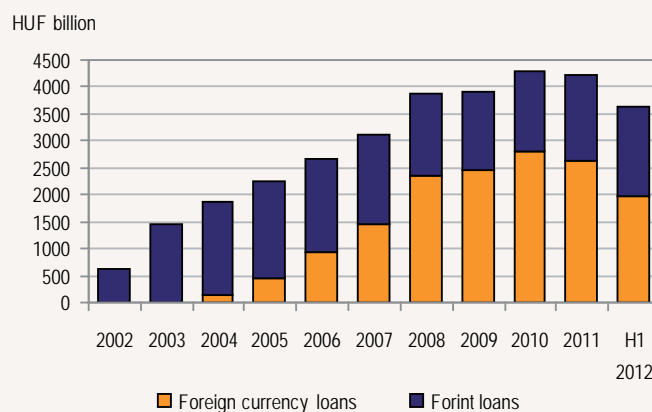


Table 1

### Stock of mortgages, 30 June 2012

(HUF billion)

Credit institute	Total	Of which foreign currency loans
Bank	2 286	1 580
Mortgage bank	1 113	396
Savings cooperative	122	11
Home savings bank	97	–
<b>Total</b>	<b>3 618</b>	<b>1 987</b>

Banks, mortgage banks as well as savings cooperatives and home savings banks accounted for nearly 63%, 31%, 3% and 3% respectively of total loans. In terms of the distribution of loans, a decline was seen among banks and a rise among the other credit institutes.

The credit crisis continued to negatively influence the scoring of loans in the first half of 2012. 83% of loans were 'problem free' in terms of credit rating. 9% of them were rated as 'under special monitoring', while sub-prime loans accounted for 8%. It is remarkable that 'problem free' loans saw a year-on-year decrease of 4 percentage points in proportion, while there was a 2% increase in the category of 'under special monitoring' and an over 2% rise in that of sub-prime loans. It means that, as of June 2012, 69 thousand loans were past due by between 31 and 60 days, 61 thousand loans were past due by 61 days or over or 365 days or over.

<sup>1</sup> Since January 2011, the number of data providers dealing with residential mortgage lending has increased by two new home savings banks. It facilitates to provide a more accurate picture on this segment of lending. The emergence of these credit institutes raised the number and volume of stock by 68 thousand loans and HUF 97 billion respectively, this latter one accounted for 2.7% of the total stock of loans.

### Mortgage approvals

In the first half of 2012, more than 34 thousand home loans were approved with a total of HUF 145 billion. Year-on-year, mortgage approvals increased by 42% in number and by 55% in amount. However, it has not resulted from an expansion in lending, but from forint denominated swing loans taken out to finance early repayment.

In the first half of 2012, state subsidized loans accounted for 2.5% of newly approved loans, which was a new low compared with 3% a year earlier. This drop mainly resulted from the tightening of the terms of subsidized loans. Foreign currency lending practically came to an end: this type of loans accounted for less than 0.5% of all loan approvals in the reference period, in the first half of 2011 this proportion varied between 0.5 and 1 per cent. This fall in foreign currency lending resulted from a moratorium on this type of lending from the second half of 2010. From the first half of 2012, credit institutes were authorized to restart foreign currency lending under newly set conditions, but, up to now, it had no measurable influence on statistics.

Approved mortgages in the first half year

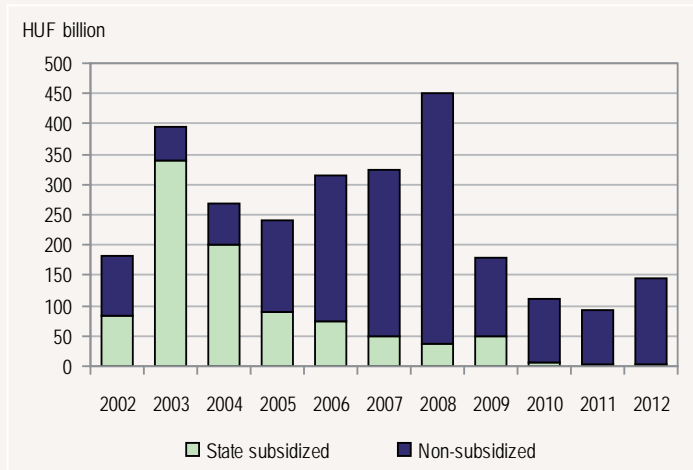


Figure 2

Approved mortgages in the first half of 2012

Mortgage	Number of loans	Volume, Billion HUF
State subsidized	689	4
Non-subsidized	34 009	142
<b>Total</b>	<b>34 698</b>	<b>146</b>

Table 2

In the first half of 2012, in terms of volume, banks, mortgage banks, savings and credit associations as well as home savings banks accounted for 46%, 22%, 6% and 26% respectively of mortgage approvals. The entry of new credit institutions into the market in 2011 resulted in a change in market shares. So a rise was seen in the mortgage market share of savings cooperatives and credit associations as well as in that of home savings banks mainly at the expense of banks and mortgage banks.

In the reference period, the average mortgage was HUF 4.2 million, a year-on-year increase of HUF 400 thousand.

### Mortgage lending

The observed period saw a rise in the number and volume of mortgage loan payouts. Last years rise came to an end in the first half of 2008, 2009 saw another fall that lasted until the first half of 2011. Since the second half of 2011, a growth started that continued in the first half of 2012. In compliance with this, the number and volume of mortgage loan payouts increased by 35 and 41% year-on-year in this reference period.

Analyzing by the purpose of lending, swing loans played an outstanding role in the first half of 2012 with a more than 7-fold rise in proportion and an 14-fold rise in volume year-on-year. This rise was the result of the introduction of the early repayment scheme, because a number of those taking part in the early repayment scheme converted their foreign currency loans into forint loans. Nearly 12 thousand early repayments were made totalling HUF 69 billion. In terms of number, the combined proportion of construction and new home mortgages was 20% in the first half of 2011, which fell to 11 per cent in the first half of 2012. In terms of volume, second hand homes played a major role in the same period a year ago; the occurrence frequency of this credit purpose fell by over 29 percentage points; in spite of this the purchase of a second hand home, as a credit purpose, continued to exceed the combined volume of new build and new home sales both in number and volume.

In addition to the previously mentioned loan purposes, modernization and extension also play a considerable role, the proportion of which continued to decrease between 2001 and 2005, then varied around 15% in number and 5-6% in volume in the past five years. From the first half of 2011, as a result of the special lending features of home saving banks, among payout goals, these increased to 21% in number and to nearly 10% in volume by the first half of 2012. The average loan per a single payout – as a result of the character of the credit purpose – was smaller than in case of the previously examined purposes, it was the cause of the proportional shift between the number and the volume of loan payouts.

Volume of mortgage loan payouts and subsidies by purpose in the first half year (at current prices)

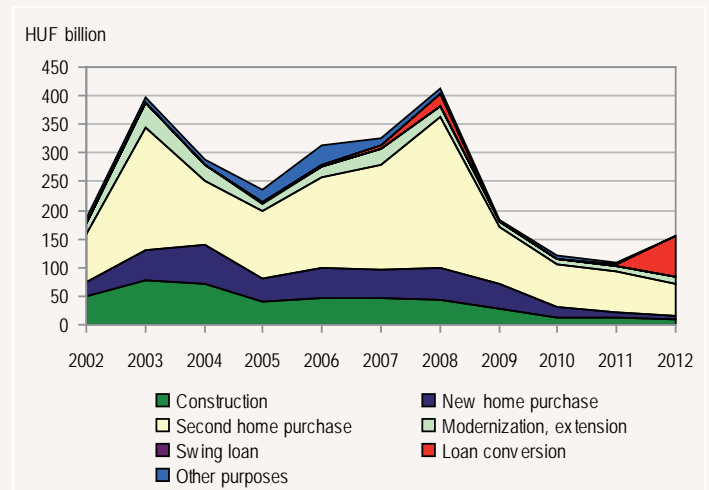


Figure 3

Table 3

**Mortgage payouts and subsidies by purpose, first half of 2012**

Mortgage	Number of loans	Volume, Billion HUF
Construction	2 154	9
New home purchase	16 277	53
Purchase of a second hand home	9 087	15
Modernization, extension	2	0
Swing loan	11 761	69
Loan conversion	804	1
<b>Other goals</b>	<b>42 789</b>	<b>155</b>
<b>Total</b>		

Mortgage loans had an average period of over 14 years, out of single credit purposes, construction mortgages and new home mortgages had mortgage periods of 16 and 17 years respectively. Concerning the previously mentioned goals, the average mortgage period slightly decreased and remained unchanged in case of purchasing a second hand home.

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