

The MNB's mortgage bond purchase programme

In accordance with the Monetary Council's decision of 8 February 2010, the Magyar Nemzeti Bank is announcing a programme to purchase domestically issued mortgage bonds. Under the scheme, the Bank will start making primary and secondary market purchases of domestically issued mortgage bonds listed as eligible collateral up to a total notional value of HUF 100 billion. All domestic credit institutions subject to reserve requirements will be eligible to participate in the programme, provided that they satisfy the relevant technical requirements. In the interests of the long-term development of the domestic mortgage bond market, purchases by the Bank will be subject to meeting certain criteria, with the aim of enhancing the liquidity and transparency of the market. The Bank will stand ready to make primary market purchases of certain quantities of any forint-denominated mortgage bonds issued after 8 February 2010, provided that the following conditions are met:

- The bond issued must be of at least three years' original maturity;
- The issuer announces publicly that the amount of bonds to be issued under the series to investors outside the issuer's banking group will reach at least HUF 50 billion within the year following the inaugural issue. Subscriptions within the same banking group will not count towards that amount except purchases by pension funds and mutual funds managed by the same group as well as by insurance companies within the group. Issuers may also sell a series of bonds of at least HUF 50 billion in parts, i.e. across multiple bond issues, to be completed within one year following the inaugural issue;
- The issuer announces publicly that it has agreed with at least three market makers belonging to different banking groups to provide continuous and firm two-way prices in the given mortgage bond as market makers for an amount of at least HUF 100 million, on the condition that the bid-ask spread does not exceed 75 basis points up to a nominal outstanding amount for each series of HUF 25 billion and 50 basis points above that amount. In order to encourage credit institutions to undertake to provide regular prices in newly issued mortgage bonds and support their risk management frameworks, the Bank offers a mortgage bond lending facility, by applying a pre-set lending limit for each market maker and mortgage bond series.

If the above conditions are met, the MNB will purchase up to 20 per cent of bonds issued outside the issuer's banking group as part of an issue, at the average yield on the amount in issue subscribed by investors outside the group. The issuer of the bond series meeting the above requirements may invite the Bank to purchase a specific bond by sending to the Bank the documents giving the particulars of the issue and subscription prices evidencing that the above conditions have been met.

The Bank will, at its discretion, make secondary market purchases of mortgage bonds listed as eligible collateral issued prior to 8 February 2010, via variable rate, competitive auctions held on an ad hoc basis. The first auction will take place on 10 March 2010. The terms of that auction will be announced in a press release on the Bank's website today.

The mortgage bond purchase programme is expected to be completed on 31 December 2010 at the earliest.