



## **Notice on the conditions for lending mortgage bonds related to the mortgage bond purchase programme<sup>1</sup>**

### *1. Description of the transaction and access conditions*

1. Pursuant to the following decisions taken by the Monetary Council, the Magyar Nemzeti Bank (MNB) announced

- the Mortgage bond purchase programme (on 21 November 2017),
- the Mortgage bond purchase programme II. (on 28 April 2020),
- the Green mortgage bond purchase programme (on 6 July 2021), and
- the Mortgage bond rollover facility (on 22 October 2019 and 6 July 2021)

within which the MNB purchases or purchased mortgage bonds in the primary market that meet or met the conditions laid down in the relevant notice (Programmes).

The lending facility provided by MNB aims to support Money Market Counterparties in fulfilling their market making obligations in connections with the Programmes.

2. The mortgage bond lending facility (Transaction) may be used under the conditions laid down in this notice (Notice) by resident credit institutions subject to reserve requirements with direct VIBER or BKR membership with whom the issuer of the given mortgage bond has entered into a written market maker agreement for the mortgage bond series subject to the lending transaction (Counterparty). Under the Transaction, the MNB transfers the mortgage bonds to the Counterparty, as set forth in the Notice, provided that the Counterparty returns the mortgage bonds in the same quantity and of the same series to MNB.

3. The range of borrowable mortgage bonds is constituted by those mortgage bonds which are issued after 15 February 2018, for which the issuer initiates a purchase by MNB, which comply the conditions of the Programmes and from which the MNB purchased in the primary market (Mortgage Bond). In terms of a Mortgage Bond belonging to a given Mortgage Bond series, a mortgage bond lending transaction under the Notice may be concluded at the earliest on the business day after the MNB discloses the quantity of the given Mortgage Bond it purchased in the primary market. A Mortgage Bond may not be the subject of a Transaction, if the remaining maturity of the Mortgage Bond is 3 months or less at the launch of the Transaction.

The maximum quantity of the borrowable Mortgage Bonds at any point in time may be 2.5 per cent of the aggregate nominal value of the Mortgage Bonds owned by the MNB including the current total stock lent out (Allocation). The maximum stock that may be borrowed by a

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<sup>1</sup> Consolidated version with the amendments effective from 24 October 2019, pertaining to the rollover of the MNB's mortgage bond holdings.

Counterparty from a given Mortgage Bond series can be 2.5 per cent of the aggregate nominal value of the given Mortgage Bond series owned by the MNB including the current total stock lent out (Counterparty Limit). In terms of the Allocation and the Counterparty Limit, the quantities of the Mortgage Bonds purchased by the MNB, at the initiation of the issuer, disclosed on the MNB's website shall apply.

If two or more market makers enter into a market making agreement for a Mortgage Bond series with the issuer of the given Mortgage Bond and the total stock lent out by the MNB would exceed the Allocation upon acceptance of the bid, the bid shall be partly accepted, up to the limit of the Allocation. If the total stock lent out by the MNB reaches the Allocation, no further bids shall be accepted.

The term of the Transaction is 3 months, during which the Mortgage Bond may be returned on any working day. If the Counterparty does not return the security to the MNB on the date of expiry of the 3-month term, the MNB may terminate the Transaction by sending a written notice 1 day before the termination. On the day of termination, the Client is obliged to pay to the MNB an amount corresponding to 105 per cent of the market value, determined by the MNB, of the borrowed Mortgage Bond stocks, by permitting the MNB to debit that amount to primarily the Counterparty's margin account at the MNB or the Counterparty's payment account at the MNB.

The Transaction shall be deemed as made when the MNB accepts the bid submitted by the Counterparty.

The lowest bid a Counterparty may submit shall be HUF 1 million in respect of the nominal value of the given Mortgage Bond, and bids may be increased in integral multiples of HUF 1 million. The bids may be submitted through the Bloomberg platform or in the absence thereof, as an electronic document at the email address [forexdesk@mnbb.hu](mailto:forexdesk@mnbb.hu). The bid should specify the requested Mortgage Bond series (ISIN number or short name) and the nominal value of the requested quantity.

If the Counterparty returns the Mortgage Bond before the expiry of the Transaction, this can be done on the working day of the planned return at the latest, in line with the content and the formal requirements for the bids.

The Counterparty shall provide cash collateral securing its obligations stemming from the Transaction particularly, the obligation to return the Mortgage Bond, in the form of a collateral debiting the balance of a HUF denominated margin account. The MNB will keep a margin account for Counterparties, and all the Counterparties' open transactions are marked to market on a daily basis. In respect of the Transaction, the margin account balance must reach every day the market value, determined by the MNB, of the Mortgage Bonds lent out within the Transactions increased by the margin ratio corresponding to the expiry of the Mortgage Bond. The margin ratio will be calculated in line with the haircuts for L1 category assets set out in the "Risk management parameters applied to eligible collateral accepted by the MNB", published on the MNB's website.

If the margin account balance of a Counterparty does not reach the required amount upon daily revaluation, the MNB, simultaneously notifying the Counterparty, will debit the Counterparty's forint settlement account at the MNB by the amount needed to restore the required margin and will credit the amount to the Counterparty's margin account. If the forint margin exceeds the required amount upon daily revaluation, the MNB will carry over the amount in excess of the required margin from the Counterparty's margin account to its forint settlement account at the MNB. The MNB remunerates the Counterparty's positive balance on the margin account at the prevailing O/N deposit rate, with interest settled on the Counterparty's forint settlement account at the MNB on the last working day of the month. As the fee for borrowing the Mortgage Bond, the Counterparty pays an amount corresponding to 5 basis points on the amount of the balance on its margin account, with the amount debited by the MNB to the Counterparty's forint settlement account at the MNB on the last working day of the month.

The Counterparty pays to the MNB any interest to be paid during the term of the Transaction or any interest or yield (potential repayment of principal) arising during the term of the Transaction in respect of the borrowed Mortgage Bond, by permitting the MNB to debit the Counterparty's margin account with that amount when due.

## *II. Detailed parameters and technical criteria*

<b>Eligible counterparties</b>	Those resident credit institutions (subject to reserve requirements) with direct VIBER or BKR membership that have entered into a written market maker agreement, complying with the conditions of the Programmes with the issuer of the Mortgage Bond for the Mortgage Bond series which is subject of the lending transaction
<b>Range of borrowable securities</b>	Those Mortgage Bonds that are issued after 15 February 2018, for which the issuer initiates a purchase, which comply the conditions of the Programmes and from which the MNB purchased in the primary market
<b>Initiator</b>	Counterparty
<b>Business hours for receiving bids</b>	Between 10:00 and 10:30 hours on every MNB working day
<b>Content and formal requirements for the bids</b>	Bids can be submitted via Bloomberg platform or in the absence thereof, as an electronic document at the email address <a href="mailto:forexdesk@mn.b.hu">forexdesk@mn.b.hu</a> , specifying the requested Mortgage Bond series (ISIN number or short name) and the nominal value of the requested quantity
<b>Bid limit</b>	At least HUF 1 million per bid in respect of nominal value of the given Mortgage Bond, in integral multiples of HUF 1 million. Maximum of bid limit equals Counterparty Limit.

<b>Counterparty limit</b>	2.5 per cent per Mortgage Bond series owneded by the MNB including current outstanding holdings. The sum of the limits of each Mortgage Bond series per Counterparty.
<b>Term of lending</b>	3 months; with the option to return the Mortgage Bond on any working day during the business hours for bids, in line with the content and formal requirements for the bids
<b>Cash flows of the security</b>	During the term, the MNB debits the cash flows of the Mortgage Bond to the Counterparty's margin account at due date
<b>Interest payment</b>	Daily interest calculation; O/N deposit rate
<b>Fee</b>	5 basis points
<b>Settlement date</b>	T+0
<b>Start of the facility</b>	At the earliest on the working day after the MNB discloses the quantity of the given Mortgage Bond it purchased in the primary market
<b>Types of collateral</b>	Cash
<b>Haircut</b>	Haircuts according to security category L1, based on normal eligible collateral
<b>Type of settlement</b>	Settlement of the MNB must be preceded by settlement of the Counterparty (either in terms of cash or security transfers). Method of security transfer is Free of Payment (FoP).
<b>Time of sending notices about daily marking to market and margin account transactions</b>	Counterparties are notified via a SWIFT message. Time of account transactions: until VIBER closing

In respect of issues not regulated here, the 'Terms and Conditions of the Operations of the Central Bank in Forint and Foreign Currency Markets' shall be authoritative.

Budapest, 4 August 2021  
MAGYAR NEMZETI BANK