

**FEASIBILITY OF  
ESTABLISHING  
MORTGAGE-BACKED  
SECURITIES  
MARKET IN TURKEY**

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## 1. Overview of the Fixed-Income Securities Markets



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## 8. Global Mortgage Crisis: Fannie Mae and Freddie Mac, Cagamas Cases.

*“On September 7, 2008, the Federal Housing Finance Agency (FHFA), announced the decision to place two Government sponsored enterprises (GSEs), **Fannie Mae** (Federal National Mortgage Association) and **Freddie Mac** (Federal Home Loan Mortgage Corporation), into conservatorship run by the FHFA.”* (www.wikipedia.org)

*“Mortgage-backed securities have gained a toxic reputation among investors as a result of the credit crisis kicked off by the problems with the subprime mortgage market. The attractive notion that mortgage risk could be parcelled up and spread around seemed theoretically sound, but it has not worked as well in practice...*

*In April The Hong Kong Mortgage Corporation launched a joint venture with its Malaysian counterpart Cagamas. The new institution launched its first product earlier this month - guarantees for Islamic mortgages, which it said was a world first.”* (www.ft.com-July 27 2008)



The current global financial crises has confirmed the need to develop further the long-term domestic bond markets in Turkey.

Despite generally high rates of short term saving, long-term savings have not been efficiently mobilized.

As private-sector investments are rapidly growing, they have had to be financed with short-term foreign borrowing (*causing worsening imbalances in the current account and eventually exchange-rate instability*).

As the Turkish government is looking for a way out of the current financial crisis, authorities are searching for alternative ways of mobilizing long-term savings.

The search has focused on several instruments (including pension-fund reform and the development of mutual funds or unit trusts). Mortgage-backed securities (MBSs) are increasingly seen as a tool for mobilizing long-term savings, while at the same time stimulating domestic housing markets.



The article discusses the feasibility of establishing mortgage-backed securities markets in Turkey.

The domestic bond and mortgage markets are reviewed briefly in the introduction part, then the current phase of the Residential Housing Market are depicted along with the Capital Markets Board of Turkey's effort on the development of the MBSs Market.

Securitization issues and feasibility of establishing mortgage backed securities market and launching special purpose vehicles are discussed in detail taking into consideration potentials and obstacles in the Bank Mortgage Lending Market.

## Regulation of Fixed Income Securities:

- ✓ Overview of the Fixed-Income Securities Markets
- ✓ The Role of the Fixed-Income Securities Markets



Turkey's large fiscal deficits especially in the past twenty years and a widening savings investment gap have added to the country's external debt burden, and have forced the government to borrow heavily from domestic banks, foreign banks, domestic mutual funds.

The government has consistently run into large fiscal deficits over the last two decades.

At the end of September 2008, it had an accumulated debt of 289.3 billion dollar. 196,2 billion dollar of debt belongs to private sector, 78,7 billion dollar of debt belongs to public sector, 14,3 billion dollar of debt belongs to Central Bank.

To finance its deficits, the government has been borrowing from the banking sector through treasury bills and bonds. Aside from the banking sector, the government has also borrowed from the public, through the national savings schemes.

At the expense of crowding out the private sector, the mobilized funds have largely invested in government securities.

As a result, the private sector borrowing through bonds market today is smaller than its potential size and performing below its potential. Most firms obtain foreign exchange loans from the international markets and overseas branches of Turkish Banks.



If you are interested in, please do not hesitate to contact us for the full article.

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