

## **3.4 BULGARIA**

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### **I. FRAMEWORK**

In Bulgaria, the legal basis for covered bond issuance is the Mortgage-backed Bonds Law issued by 38th National Assembly on 27<sup>th</sup> September 2000, published in the State Gazette (*Darzhaven vestnik*) issue 83 of 10 October 2000, amended; issue 59 of 2006; in force on the date of entry into force of the Treaty of Accession of the Republic of Bulgaria to the European Union; amended; issues 52 and 59 of 2007; amended; issue 24 of 2009; effective as of 31 March 2009.

### **II. STRUCTURE OF THE ISSUER**

Pursuant to the Mortgage-backed Bonds Law, the Mortgage-backed bonds shall be securities issued by banks on the basis of their loan portfolio and secured by one or more first mortgages on real estate in favour of banks (mortgage loans). Only banks may issue bonds called mortgage-backed bonds.

The real estate under the previous paragraph shall be insured against destruction and shall be of the following type:

1. housing units, including leased out;
2. villas, seasonal and holiday housing;
3. commercial and administrative office spaces, hotels, restaurants and other similar real estate; and
4. industrial and warehousing premises.

The issuing bank shall adopt internal rules on conducting and documenting mortgage appraisals of real estate which shall comply with the requirements of Article 73, paragraph 4 of the Bulgarian Law on Credit Institutions.

Securities issued under procedures other than the one laid down by the Mortgage-backed Bonds Law may not referred to with, or include in their appellation, the extension "mortgage-backed bond", or any combination of these words.

### **III. COVER ASSETS**

The outstanding mortgage-backed bonds shall be covered by mortgage loans of the issuing bank (principal cover). To substitute loans from the principal cover that have been repaid in full or in part, the issuing bank may include the following of its assets in the cover of mortgage-backed bonds (substitution cover):

- > cash or funds on account with the Bulgarian National Bank (BNB) and/or commercial banks;
- > claims on the Government of the Republic of Bulgaria or the Bulgarian National Bank, and claims fully secured by them;
- > claims on governments or central banks of states as determined by the Bulgarian National Bank;
- > claims on international institutions as determined by the Bulgarian National Bank;
- > claims fully backed by government securities issued by the Government of the Republic of Bulgaria, the Bulgarian National Bank, the Governments, Central Banks or international institutions;
- > claims secured by gold; and

- > claims fully backed by bank deposits denominated in Bulgarian levs or in a foreign currency for which the BNB quotes daily a central exchange rate.

The substitution cover of mortgage-backed securities shall not exceed 30% of the total amount of liabilities of the issuing bank under that issue. Mortgage-backed Bonds cover from any issue (the sum total of the principal cover and the substitution cover) may not be less than the total amount of liabilities towards the principals of Mortgage-backed Bonds from that issue which are outstanding and in circulation outside the issuing bank.

The claims of the bondholders under mortgage-backed bonds from each issue shall be secured by a first pledge on the assets of the issuing bank included in the cover of that issue. The pledge is a subject of entrance in the Central Registers of Special Pledges, with the respective issue of mortgage-backed bonds being indicated as a pledge creditor.

The issuing bank shall request an entry and submit to the Central Register of Special Pledges all data required for the entry of the pledge within one month after executing a Mortgage-backed Bonds Issue and shall update that data at least once every six months thereafter. The pledge shall remain in force until the full redemption of the liabilities of the issuing bank under the respective issue of Mortgage-backed Bonds without the need for any renewal. Deletion of the pledge entry shall be made upon the full redemption of the issuing bank's liabilities under the respective issue of Mortgage-backed Bonds on the basis of a document issued by the bank's auditors.

#### **IV. VALUATION – MORTGAGE APPRAISER OF A PROPERTY**

Mortgage appraisals of property shall be performed by officers of the issuing bank or by physical persons designated by it having the relevant qualifications and experience.

For the purposes of the mortgage appraiser of a property under the law, the comparative method, the revenue method and the cost-to-make method shall be used.

The mortgage appraisal shall explicitly specify the method or combination of the above methods used with the relative weight of each method in the appraisal, as well as the sources of data used in the analysis and calculations.

Subsequent mortgage appraisals of property used as collateral on the loans recorded in the register of mortgage-backed bonds cover shall be made at least once every twelve months for loans which:

- > have outstanding liabilities exceeding 1% of the issuing bank's own funds; or
- > have not been consistently classified as standard risk exposures throughout that period.

#### **V. ASSET-LIABILITY MANAGEMENT**

Art.6 of the Law on Mortgage-backed Bonds stipulates that mortgage loans shall be included into the calculation of the principal cover at the value of their outstanding principal but at no more than 80% of the mortgage appraisal value of the real estate as housing units, including leased ones, and at no more than 60% of the mortgage appraisal value of the real estate as villas, seasonal and holiday housing units used as collateral on mortgage loans.

Substitution cover of mortgage-backed bonds from any issue may not exceed 30% of the total amount of liabilities of the issuing bank under that issue.

Mortgage-backed bonds cover from any issue (the sum total of the principal cover and the substitution cover) may not be less than the total amount of liabilities towards the principals of mortgage-backed bonds from that issue which are outstanding and in circulation outside the issuing bank.

In making calculations under the previous paragraph for Mortgage-backed Bonds and assets constituting their cover denominated in different currencies, the official foreign exchange rate for the Bulgarian lev to the respective currency quoted by the Bulgarian National Bank of the day of the calculation shall apply.

A loan recorded in the register of the cover of Mortgage-backed Bonds from a particular issue may be repaid at any time by bonds of the same issue at their face value.

## **VI. SEGREGATION OF COVER ASSETS**

After the record of the assets in the register as a cover of mortgage-backed bonds of a particular issue may be used as collateral solely for the liabilities of the issuing bank on that issue. The issuing bank may not allow any encumbrances on its assets constituting the cover of outstanding mortgage-backed bonds. The issuing bank accounts assets recorded in the register of mortgage-backed bonds cover separately from the rest of its assets.

The issuing bank shall keep a public register of the cover of mortgage-backed bonds issued by it as the register is kept separately by mortgage-backed bonds issue.

## **VII. MINIMUM INFORMATION REQUIREMENTS FOR ISSUANCE PROSPECTUSES**

The offering or the draft prospectus for an issue of mortgage-backed bonds consists of data valid at the time of their preparation, such as:

1. the Rules of the issuing bank concerning the contents, the entry and deletion procedures as well as the terms and procedures authorizing access to the register and its internal rules of conducting and documenting mortgage appraisals;
2. data on mortgage loans held in the issuing bank's portfolio on the basis of which an issue is being made, including for each loan:
  - the size of the outstanding principal at the time of extending the loan and by the end of the most recent full quarter;
  - loan life at the time of extending the loan and the remaining term to maturity;
  - interest rates, fees and commissions on the loan;
  - risk classification of the loan by the end of each calendar year from the time it was extended and by the end of the most recent full quarter;
  - type of real estate mortgaged as collateral, their mortgage appraisal value and the ratio between the outstanding principal and the mortgage appraisal value at the time of extending the loan and by the end of the most recent full quarter;
3. characteristics of the mortgage loan portfolio on the basis of which the issue is made, including a distribution of loans by:
  - the size of the outstanding principal;
  - the residual term to the final repayment of the loan;
  - interest rate level;

- their risk classification by the end of the most recent full quarter;
- the ratio between the outstanding principal and the most recent mortgage appraisal value of the real estate pledged as collateral.

In public offerings of Mortgage-backed Bonds the provisions of the Public Offering of Securities Act (POSA) and the Ordinances on its enactment shall apply. In non-public offerings of Mortgage-backed bonds the provisions of Commerce Law shall apply.

#### **VIII. REDEMPTION OF MORTGAGE-BACKED BONDS IN THE EVENT OF BANKRUPTCY OF THE ISSUING BANK**

In case of declaring the issuing bank bankrupt, the assets recorded as of the date of declaring the bank bankrupt in the register of the mortgage-backed bonds cover shall not be included in the bankruptcy estate. Proceeds from the liquidation of assets recorded in the register as a cover on a particular issue of mortgage-backed bonds are distributed among the bondholders from that issue in proportion to the rights under their bond holdings. Any funds remaining after settling the claims under mortgage-backed bonds from a particular issue is included in the bankruptcy estate.

The asset pool under the above mentioned paragraphs are managed by a holders' trustee of mortgage-backed bonds which is appointed by the bankruptcy court when it has been established that the bank has outstanding liabilities under mortgage-backed bonds. The trustee is managing the assets by individual mortgage-backed bonds issue.

The Trustee shall be a person who meets the requirements of Article 217, para.1 and para2, items 1-3 of the Public Offering of Securities Act and is not engaged in any relationship with the issuing bank or any of the holders of mortgage-backed bonds which give reasonable doubt as to the former's impartiality. The Trustee shall have the powers of an assignee in bankruptcy in respect of the asset pool described above, as well as in respect of any outstanding liabilities of the issuing bank under mortgage backed bonds.

The Trustee shall manage the above mentioned assets separately for any mortgage-backed bond issue. The Trustee shall sell the above described assets under the procedure set forth in Articles 486-501 of the Civil Procedure Code and shall account any proceeds to an escrow account opened for each issue with commercial banks as determined by the Bulgarian National Bank. The Trustee shall publish in the State Gazette (Darzhaven vestnik) and in at least two national daily newspapers the place and time for the tender for the sale of assets under the procedures of previous sentence not later than one month prior to the date of the tender.

The bondholders of any issue of mortgage-backed bonds of a bank which has been declared bankrupt shall have the right to obligate the Trustee to sell loans included in the issue cover to a buyer specified by them and the Trustee shall follow precisely the decision of the Bondholders' General Meeting under the previous sentence.

The liabilities of the issuing bank under a Mortgage-backed Bonds issue shall be deemed repaid when the amount of outstanding principals of the sold loans becomes equal to the total amount of liabilities on principals and interest accrued on the bonds prior to the sales.

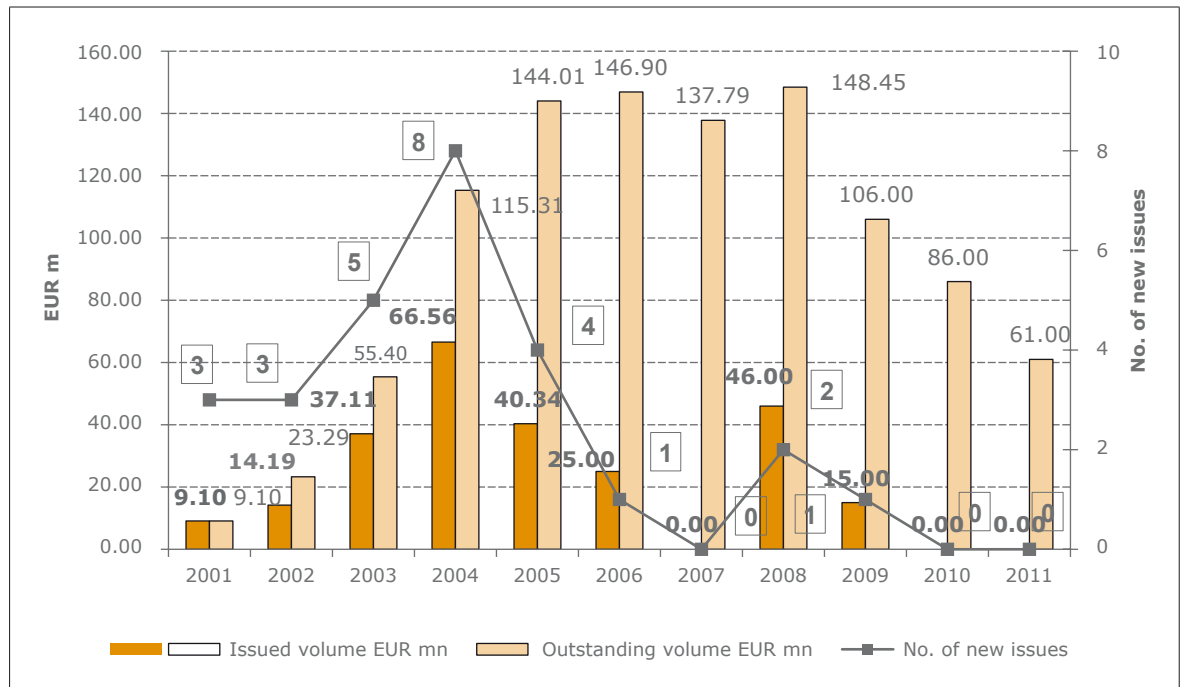
#### **IX. COMPLIANCE WITH EUROPEAN LEGISLATION**

Mortgage-backed Bonds Law complies with the requirements of Art.22 par.4 UCITS Directive as well as with those of the CRD Directive, Annex VI, Part 1, Paragraph 68.

## X. BULGARIAN MORTGAGE BOND MARKET INFORMATION

Since the adoption of the Bulgarian Law on Mortgage-backed Bonds in 2000 the Mortgage Bond Issues in Bulgaria total 27. There were no new issues in 2010 and until the end of April 2011. The volume of issued mortgage-backed bonds is EUR 253.3 mn originated by 10 issuing banks. As of the end of April 2011 the outstanding Mortgage Bonds amount to EUR 61 mn.

> FIGURE 1: MORTGAGE BOND ISSUES IN BULGARIA



> FIGURE 2: MORTGAGE BOND ISSUERS IN BULGARIA (2001 - APR 2011)

