Csizmady, A. and Hegedüs, J.: Hungarian Mortgage Rescue Programs 2009-2016[1]

Content

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Introduction

After the political changes at the end of the 1980s the Hungarian government tried to manage the housing crisis related to the economic decline and the unsustainable subsidy system of the socialist period. The government backed out from the housing sector, decreasing the subsidies and diminishing its direct role. The housing policy of 1990s could be characterized basically as crisis management: the two major programs were the privatization of the state rental sector and the consolidation of the 'old loans'.

Both measures had a regressive social effect: the financial gains of privatization and early repayment of the loans were proportional to the households' wealth, thus low income households were trapped in the residualized social rental sector or were not able to pay back their mortgage at a discount price. The Housing law regulating the rental sector[2] and the Social Law[3] made it clear that the government does not take responsibility for housing, but leaves it open for a future intervention. In 1990 the officially measured housing subsidies reached 3.7% of the GDP (World Bank, 1990), and in 1990s more than two thirds of the total home-owner subsidies were spent on the interest subsidy of the 'old loans'. In 1993-94 the subsidies related to borrowing were reduced substantially, to less than 1% of the GDP. In the second half of 1990s new institutions were set up and the legal background improved. Meanwhile, the level of subsidies gradually declined as a consequence of the decreasing housing output. Two basic housing financial institutions were established: contract savings banks[4] and mortgage banks. The Law on contract savings banks[5] was very controversial, as the subsidies given to savers made the housing subsidy system even more regressive, and there was no direct relation between the subsidies and the increase in housing investments. A more important development was the establishment of mortgage banks, which were ready to launch mortgage lending to a larger extent in case the macroeconomic conditions (residential incomes, housing investment demand, etc.) change. All this took place to the effect of the Bokros Program in the late 1990s. (Hegedüs and Várhegyi, 2000)

The study demonstrates the mortgage-lending increasing between 2000 and 2008, the reasons for the fast establishment of the FX portfolio, the consequences of the crisis in 2008, and the program aiming to handle this crisis. The first part of the study summarizes the facts of the development of the mortgage market, while in the second part the different actors of the crisis and their interests are presented, and then the different programs are analyzed. The focus of the paper is the nature of the mortgage rescue programs, how the hardship of the adjustment is managed by the government and how the cost of the programs is shared among the households, government (tax payers) and banks.

[2] Or 'Housing Law': Act LXXVIII of 1993 on Residential and Commercial Leases
[3] Act III of 1993 on Social Governance and Social Benefits
[4] Contract saving banks are special purpose financial institutions, based on the Bausparkasse model.
[5] Act CXIII of 1996 on Home Savings and Loan Associations

1. Hungarian housing finance – development of the FX portfolio

1.1 The mortgage market between 2000 and 2004

After the post-transitional recession, the overall economic performance of Hungary had improved considerably by 2000. Gross domestic product grew by 4% percent in 2000; fiscal deficit decreased to 2.9% of the GDP; the unemployment rate fell under 7%; and after a long period of decline, housing prices increased by 60% in real term between 1998 and 2000. All these gave room for new policy measures and also had positive effect on the potential housing demand.

In 2000, the first FIDESZ government (1998-2002) launched a new housing policy focusing on the stimulation of housing construction, considered to be a main driver for economic growth. (Hegedüs and Somogyi, 2005) The most significant element of this policy was the introduction of a new *housing mortgage subsidy* in 2000 in order to make mortgages more affordable. There were two different types of interest rate subsidies: (a) an interest rate subsidy to mortgage bonds and (b) an interest rate subsidy for loans connected to new construction. The third element in the subsidy program was the Personal Income Tax (PIT) *mortgage payment allowance* on new housing construction, which existed since 1994*,* but the degree of the allowance was increased substantially after 2000. Furthermore, a new construction grant was available for the first time homeowner families with children, in order to support new constructions.

Besides the home-ownership program, the government started a municipal rental program, which resulted in around 10 thousand new rental units between 2000 and 2004, but because privatization had never stopped, the share of the municipal rental stock decreased. From 1990 its share decreased from 19 % to 3 %. (Hegedüs, 2013a, p. 186-187)

As a consequence of heavily subsidized mortgage loans, the loan portfolio increased rapidly from HUF 190 billion in 1999 to HUF 1500 billion by 2003, and the outstanding housing loan portfolio grew to almost 8% of the GDP in 2003. The net value of the mortgage subsidy was 50%-70% of the loan (taking into calculation the two interest rate subsidies, PIT allowance, and the lump sum subsidy for young couples). It became clear that the level of subsidization is not sustainable for the central budget. After a long political discussion, the new socialist-free democrats government (2002-2010) substantially decreased subsidies to mortgage loans from late 2003 until mid-2004. PIT allowance for mortgage repayment were also severely cut, and fully abolished in 2007.

1.2 The rise of the FX mortgage portfolio, 2004-2008

The cut in subsidies did not stop the expansion of the mortgage market, as the new foreign exchange (FX) mortgage loan products were introduced. The share of FX mortgages increased from 16% (2004) to 75% (2008) of the full portfolio. (See Figure 1) The cost of loans denominated in Swiss Franc was much lower than loans denominated in the local currency: they had a much lower interest rate, in return for a potentially high exchange rate risk and interest rate risk. Hungary joined EU in 2004, and it was expected to join the Monetary Union in the near future, as a consequence of which, the exchange rate risk of FX loans was grossly underestimated. However, accession to the MU was postponed further and further because of the loose fiscal policy. Until 2008 it was considered very improbable that the value of the HUF would decrease so much that the financial advantages of the

FX loan would be cancelled out. Another important change in the mortgage lending system was the massive expansion home equity loans[6] from 2004. Home equity loans also had low interest rates, but the related underwriting procedures were much looser, as they were backed by one or more real estate units. The looser underwriting conditions (e.g. no proper checks on income) and less responsible lending practices were a combined result of the intensifying competition among banks and the poor performance of the Bank Supervision Authority. While the mortgage portfolio increased rapidly, competition did not result in a decrease in interest rates (the spread remained very high for HUF loans), which hints at a collusive behavior. Some experts interpreted this phenomenon by saying that competition among banks developed more in the field of risk taking than in price reduction. (Király and Nagy, 2008)

The potential risks (HUF exchange risk and interest rate risk) were underestimated by all stakeholders. The government controlled institutions (Financial Supervisory Authority, Hungarian National Bank) and pro-government politicians were content with the development contributing to the economic growth. The opposition who argued that the cut in subsidies in 2004 would hold back the potential growth of the market did not demand the control over the expanding FX loan portfolio. Households who did not understand the risks of FX equity loans were eager to secure them, and most of the experts thought fast change of the exchange rate improbable. Banks and the Association of Banks stand up for the FX loan, and even the Hungarian National Banks was very modest to indicate the possible danger. The housing finance system was extremely un-regulated and the banks had extreme power to set the cost of the loans, change the interest rates unilaterally, regulate the exchange rates, and more, powers which were not visible at the time of the growth but became evident during the crises and became the source of popular conflicts.

While the mortgage portfolio increased rapidly, competition did not result in a decrease in interest rates (the spread remained very high for HUF loans), which hints at a collusive behavior. By the time the GFC hit the country, the economy had already been weakened by fiscal irresponsibility (a large deficit and increasing debt) and macroeconomic failure (low growth).

1.3 The effect of the GFC of 2008

The GFC shook the Hungarian economy, partly because of the loose fiscal policy (high deficit and external debt), the huge stock of FX mortgage portfolio. As a consequence of the crisis, annual new housing construction fell from 36,200 in 2008 to 7,300 in 2013. Real house prices were more than 30% lower in late 2013 than in early 2008, and housing transactions decreased by 40% in the same period. The share of non-performing loan increased from 5% to 20% between 2008 and 2014. *The initial response by the interim government (2009-2010)* to the crisis focused on managing the fiscal deficit, which was one of the conditions of the IMF loan taken out in 2009. An important element of the fiscal adjustment program was the drastic cut of housing subsidies; the two mortgage interest subsidies and the housing construction grant were repealed. Another important measure was the introduction of a moratorium on foreclosures up to 1st September 2009, which later was extended until 1st July 2012.

[6] In the case of equity loans the loan is backed by real estate, but the aim of the loan is not defined.

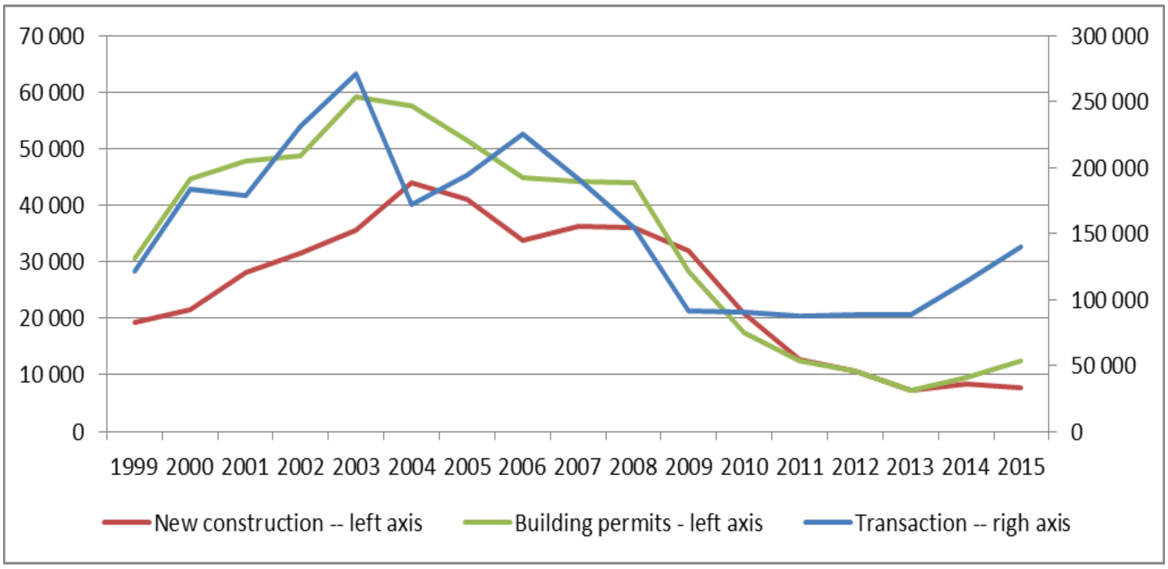

Figure 1 New construction, building permits and transactions 1999-2015 Source. Central Statistical Office (Transactions in 2015 is an estimate by MRI)

The consequences of the financial crisis on the housing sector in Hungary were very much like those experienced elsewhere (Scanlon et al. 2012; Deloitte 2012). The main element of the mortgage loan crises were the worsening exchange rate (especially the HUF/CHF), the increasing interest rate, and decreasing income (because of growing unemployment rate) and the plummeting house price. The politics and the players have not realized the deepness of mortgage crises in 2008 and 2009, the steps of the government to manage the crises were very ineffective, and banks use their legal power to transfer the risk to the borrowers. An important study predicted a small decrease of the defaulted loans from 2009 to 2010 (from 10.8 to 10.2%) (Gáspár and Varga, 2011), and Hungarian National Bank report on Financial Stability (till November 2010) evaluated the risk quite manageable.

To summarize, by 2009 the volume of household loans was close to 8000 billion HUF, which totals 30 % of the GDP. This loan portfolio included consumer loans (like car loans) as well. Around 50 % of it was FX loan. The loan portfolio decreased from 2008 till 2015 as a consequence of the different programs; however, since the HUF was weak the total decrease was only 18 % (between 2009 and 2015). In 2015 the forced conversion and the compensation of the unfair banking practice created a new situation. (See Figure 1 and the discussion of the programs in part 3.)

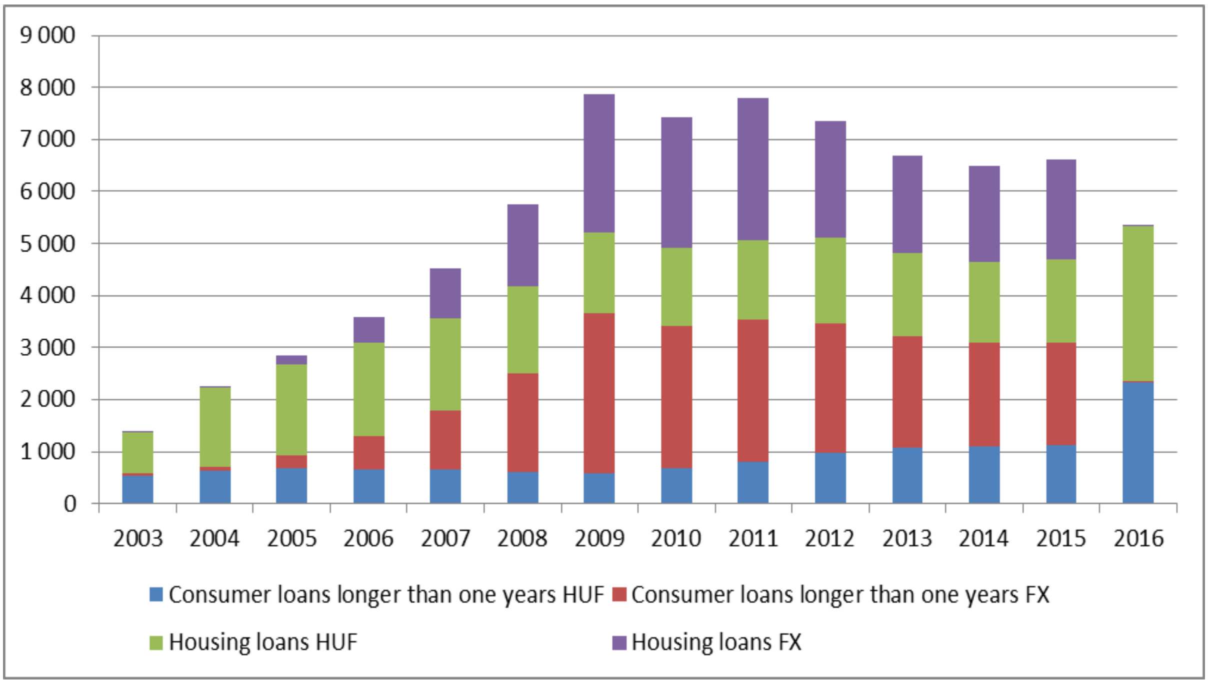

Figure 2 Households' loan development (loans longer than one year) Source: Hungarian National Bank Report on Financial Stability, 2016

2. The political environment of the mortgage rescue programs in Hungary – different players

The mortgage rescue programs aim to slow down the negative effects of the macroeconomic changes and try to stabilize the housing market position of the households who suffered from the hardship of the changes in the interest rate, exchange rate and their household income situation (because of the unemployment and individual conflicts). The international experience shows that very different solutions were implemented depending on the causes and extent of the default, like legal changes (foreclosure procedure – to promote out-of-court restructuring) tax and loan forbearance, temporary ban on evictions, rent-to-own schemes, etc. (Wilcoxs at al, 2010, Long and Wilson, 2011 Howard, 2011). The "orthodox" approach of the mortgage rescue programs is for governments to employ large-scale public interventions only if there is enough evidence that market-driven solutions did not work. This is because the cost of the interventions could easily exceed the benefits as there is always a danger to "create opportunities for politicization and capture by special interests" (Erbenova, 2011). The orthodox approach

1. involves in the negotiation each parties (debtor, lender and the state) and each of them have to contribute to the cost based on mutually agreed consensus (rule of law);
2. allocates the cost of the program according to the capacity to pay among the various types of players (different banks, different groups of debtors, and even different groups of tax payers);
3. tries to increase the time span of the intervention restructuring the present cost to the future.

In the “unorthodox” solution there is no consensus (one party can force the cooperation onto the other) or respect for the rule of law, the costs are not allocated according to the capacity to pay. A typical “unorthodox” element is when the program uses “blanket debt forgiveness schemes”, which puts an unexpectedly high burden on the economy (depending on who picks up the costs) or distorts the behavior of the players. (Hegedüs, 2013b)

Between 2010 and 2015 the policy of the Hungarian government had several program elements which can be characterized as “unorthodox” which 1. was not based on consent of the three parties (borrower, lender and the state); 2. was not proportional and 3. the programs did not transfer the present burden to the future. By contrast, other countries in the region, like Estonia, for example, followed the orthodox models (Bohle, 2014) The Hungarian solution was a consequence of the special political factors in Hungary, and did not follow from the post-socialist model (structural explanation). In the next section we analyze the political environment of the rescue programs.

2.1 The government and the ruling party

The mortgage rescue packages and other efforts of the socialist and free democratic government (in 2009 and early part of 2010) followed the logic of the orthodox approach. However, the government was cautious because they did not want to put an extra burden on the national budget with these measures, for fear of potentially causing further macroeconomic imbalances, and party because politically they were weak (they had a strong Fidesz led opposition). The new government did not follow this strategy after 2010 when the government had a 2/3 political support in Parliament.

The two-thirds majority of the votes the Orban government of 2010 has received, coupled with their new economic ideas, created a totally new situation. Analysts disagree on how to assess the extent to which they should assume the government did have a concrete plan to reform politics and the economy. It is also debated whether the so called unorthodox economic policy follows a master plan or whether it is more like a series of unrelated political and economic decisions by shortsighted gains not connected theoretically. A stronger hypothesis is that there is a loose “master plan” behind the policy measures which have examples or role models in countries like Argentina, Russia, etc. The ideal development model of the Orban regime was inspired by the Southeast Asian tiger economies. An important element of the system is that the profits derived as a result of the structural economic changes, essentially through the exploitation of cheap labor, will be channeled to the domestic oligarchs close to the ruling party, who, trusting the longevity of the regime, will then re-invest these profits into the economy.

It was beyond the scope of our research to offer a detailed analysis of the economic policy of the Orban government, but the FX mortgage rescue programs cannot be discussed independently from the macroeconomic and political aims. The two-thirds majority eliminated control over political decisions, which has weakened the position of the banks. Political attacks against multinational companies and their punitive taxation (and “freedom fight” against EU) have become part of the political agenda of the government and the ruling party. Prime Minister Orban has repeatedly emphasized that he wishes to favor domestic banks (to be more accurate, those which are close to the government) and several politicians welcomed as a positive development that some banks had decided to leave Hungary. Waging a war against banks, however, is risky, as it endangers the banks’ normal functioning and exposes the country to grave macroeconomic risks. In this “war” the question was how much burden the banks can endure and when some of the government measures will trigger serious sanctions by the EU.[7] These considerations have significantly impacted the political steps taken in the course of the mortgage rescue programs, which cannot be understood without taking account of the background. The other important element of the "unorthodox" economic and social policy was the aim to strengthen the middle class. As one of the ideologists put it, social policy has to forget about the lowest one-third of the society (and the highest 20% who do not need it) and has to give its support to the remaining 50%.[8]

But the government did not have a clear, well-designed program. As we will see, parallel programs were started, some died, some lived but they were under a continuous change. To put it in another way, the government did not have a clear vision about the mortgage rescue programs. They simply launched them either having discussed it previously with the banks and other players, or not. Depending on their assessment of the given political and economic situation they modified the conditions ignoring possible former agreements. This practice is one of the important elements of the unorthodox mortgage loan rescue programs (Hegedüs, 2014, Hegedüs-Somogyi, 2015), which ignored the law and previous cooperation agreements, but was, at the same time, willing to incorporate schemes spreading out the burdens more evenly in case it seemed politically advantageous.

The rescue efforts have an important political element since the majority of debtors are an important group: They are young with higher qualifications and income. Each government prefers providing political support for this social group. Therefore the government strived to ensure that their efforts should be acknowledged and no other political force could benefit from the political gains of the rescue schemes. We shall see that whenever a non-governmental initiative is about to produce some results, the government is quick to react and incorporate these solutions into their policies, even though not always successfully.

2.2 Experts' views on FX loan

Until 2009 there was no principal objection against the FX loans, but after the 2008 crisis the "blame game" started, and different views were formulated in respect of the main "sin" and the possible solutions. The media and various groups used the ideas and interpretations offered by "experts", even though some of them – according to the authors of this article – have lost touch with the basic assumptions and principles of economics. Their roles were very important in influencing the public opinion. We can differentiate among four main approaches:

- According to the first approach each party was aware of the risks of the FX loans, and no general rescue programs can be justified. The rescue programs will be unjust and unproductive, starting a process which will lead to disturbances in the banking system and cause macroeconomic difficulties. (Csillag and Mihályi, 2011).
- The second approach follows the typical orthodox solution, which argues that each player of the FX borrowing market has to be part of the solution, they all have to offer something. The

[7] OTP bank, which is owned by small (probably mostly foreign) investors, has a Hungarian management, run by Mr. Csányi, the richest (and very powerful) Hungarian person. His power, however, seemed to have weakened recently.
[8] http://www.sonline.hu/somogy/kozelet/berendezkedesvaltas-az-ut-szelen-hagyni-3-millio-embert-489819

solution is to convert the FX loan stock into a HUF loan portfolio and offer financial help for the families according to their capacity to pay. (Barta et al 2011, Várhegyi , 2011))

- The starting point of the third approach is that the FX loans were basically a “defective product”, which should not have been allowed by the regulatory agencies. Consequently, the debtors were not responsible for the consequences, and the state and the banks have to restore the original situation and shoulder the costs by themselves. (Róna, 2011)
- The fourth approach is the most radical, which states that the banks intentionally (in cooperation with the state) deceived the debtors. Consequently, the debtors are not responsible for the extra cost of the loans caused by the crisis, and have to be compensated. This view is very popular among the radical civil movements. (Some of the proponents of this view include István Varga and Imre Boros, who were frequent interviewees on this issue on Hungarian television.)

2.3 The Hungarian National Bank and the Bank Supervisory Authority

The Hungarian National Bank has an important role in the regulation of the mortgage market. Their reports are always the most significant document analyzing the market, and have a high influence on public opinion. Their reports between 2004 and 2008 warned about the risks of the FX loans, but they were not really convinced about the necessity to ban or constrain the issue of these loans. Politics played a role as well in their experts’ views. Between 2001 and 2007 the president of the Bank was a nominee of the FIDESZ (from 2002 to 2010 the Hungary had a socialist-liberal government); from 2008 till 2013 the president of the National Bank was a socialist nominee (from 2010 Hungary has had a FIDESZ government), and since 2013 the president, Mr. Matolcsy, has been appointed, who was previously the Minister of Economic and Development Affairs of the FIDESZ government. Of course the HNB should be independent, but these political ties had an effect on its independence, and after 2013 even sustaining the appearance of independence has become less of a concern for the government. Until 2013 the analyses and implied proposals in the HNB reports were put forward for orthodox mortgage rescue programs, but after 2013 the HNB became the most important think tank of the government’s unorthodox policy. The Bank Supervisory Authority had always been a weaker player in the sector, and it was merged into the HNB after 2013.

2.4 Mortgage Banks

Before the era of the new Fidesz government, formed in 2010, banks used to play a decisive role in defining the rules and regulations of mortgage loans and consequently in the related political ones, too. In 2009 and 2010 banks continued to follow their former routines and felt they were in a strong enough position not to volunteer offering their fair share in shouldering the costs of the crisis. Their attitude can be well illustrated by the debates on the adoption of a Bank Code of Conduct. First of all, the banks were divided and had different points of views depending on the extent to which they had offered FX loans. This in itself limited their chance of coming up with a uniform response. Secondly, some of the banks were of the opinion that the increased risk should be factored into the interest in such a way that banks should not end up with capital loss, which clearly indicates that they had underestimated the risks.

After 2010 banks have lost the strength of their position, which has much to do with the new unorthodox economic policy and the political vision of the government. Orban has declared several times that the government aims to ensure that Hungarian owned banks should be in majority. This did not imply increasing the monopolistic situation of OTP, the leading Hungarian bank. The Alliance of Banks was not in a strong enough position to be able to harmonize the various interests of banks, which prevented the banks from successfully representing their standpoint in negotiations with the government. (See, for instance, the internal division emerging among banks during the discussion of the Code of Conduct.) The government did not mind some of the banks leaving Hungary and never considered agreements with them unchangeable, which is illustrated by fines levied, auditing investigations ordered, delaying the phasing out of extraordinary special taxes on several occasions, and a special tax introduced to rescue the victims of the Questor broker firm, which has recently gone bankrupt. The government's attitude towards banks, however, keeps changing, partly due to foreign policy reasons (they did not wish to risk the termination of the incoming EU funds), but also out of caution not to ruin the functioning of the bank system. Some of the rescue programs fit into the orthodox measures and were accepted by the banks as well (National Asset Management Agency and FX loan rate caps). Legal verdicts without any economic basis as well as the government support for these verdicts and the anti-bank sentiment around them have seriously harmed the banks even though the government support had other, namely, vote maximizing aims, too. Banks are stalling for time and try to minimize their losses, which allows the government to employ selective measures (e.g. creating more favorable conditions for Erste Bank).

2.5 Players in the legal sector

The legal sector reacted to the mortgage crisis at a fairly early stage. Several interpreters of the crisis (for example, economist Péter Róna) helped the lawyers and the debtors to offer reasons for launching court cases against the banks. However, the courts were not prepared for these types of trial. The statement that the FX loans was a "defective product" has become generally accepted by the majority of debtors and helped them to formulate a new narrative of the mortgage borrowing. However, in legal terms, the court cases used several reasons, e.g. that FX loans just pretended to use foreign currency, but the loan was a "faulty product", the foreign exchange spread was an illegal cost item, and the unilateral change of the interest rate was unlawful.

Actually, most of the banks (especially the larger ones) used contract types which followed the requirements of the law. Though how much a consumer understands from these contracts is another matter, and it would have been the Bank Supervisory Authority's job to provide consumer protection. The appropriate basis for court cases was contracts which had some elements missing or were prepared in a sloppy way, thereby affording the debtor the opportunity to win the court case against the bank.

Lawyers have become very active in the court cases, and several layers specialized in the FX loan cases. The number of cases increased from 514 in 2011 to 5,108 in 2013, and around 12,000 in 2015. The market for court cases has increased, and intermediary agents stepped in (according to some views, the same people who were the sales agents for the FX loans). Some other players in the legal system have also become very important such as bailiffs or notaries, who were accused of being great beneficiaries of the crisis.

The government did not support the court cases, but after realizing their significance it played an active role in supporting and influencing them. For example, the decision of the Curia in 2013 was highly criticized by the government for their being on the side of the banks. The Curia, in the spirit of the current autocratic system, modified its decision by 2014.

2.6 Civil movements

Reacting to the existing social problems created by the mortgage crisis, spontaneous civil, self-organized movements have emerged to help the victims of the FX mortgage loans. These movements have been responsible for organizing demonstrations, protesting against banks and the government, typically with the support of the extreme right-wing political parties. The government (and the ruling party) exploited the disappointment of debtors and the anti-bank sentiment, and even encouraged the popular blaming of banks. The government from time to time attempted to integrate the civil movements into the public administration, but they have remained quite independent. For example, in 2013 Mr. Doubravszky, one of the prominent people in the civil movements, was appointed as government Commissioner for Financial Right, but his ‘alternative bank’ proposal failed and he was discharged in 2014. After the Curia decision in 2014, the Civil Unity Forum (CÖF), the government sponsored pseudo-civil organization, tried to merge the anti-bank civil movements under their direction, but they were rejected. Later CÖF stood up against the demonstrations, which is the most important activity of these organizations. The radical wing of the civil movements was not pleased with the decision, as they wanted to nullify the original contracts placing the cost of the exchange rate risk on the banks.

3. Government programs between orthodoxy and unorthodoxy

From 2009 onwards there have been several government attempts to manage the mortgage crisis. Some of them remained very small and inefficient, while some of them had a very important impact on the market and the behavior of the households. The time elapsed is not enough to evaluate most of the programs. There are very good technical analyses of the different programs by the experts at the Hungarian National Bank published in various reports.[9] We do not intend to give a full analysis of each of the programs, only highlight the most influential program and its characteristics from the

point of view of its effect on the behavior and position of the households.

As mentioned earlier, there was no master plan for the rescue programs. Most of the programs were started without knowing what the cost will be and exactly whom it will help, how it will change the position of debtors, whether it will be supported by the players of the sector, etc. The government started a program and adjusted the conditions as problems, constraints, etc. emerged. In the next section first we describe the programs and in the summary we try to classify whether the ”orthodox” elements or the “unorthodox” elements are dominant in them.

[9] Most important are the Stability Reports published two times a year. See www.mnb.hu.

3.1 Moratorium and foreclosure quota

A moratorium had been introduced on foreclosures until 1 September 2009, which was later extended until 1 July 2012. The moratorium was meant to provide protection for defaulting debtors until a more complex rescue program could be launched. However, the two-year moratorium posed a risk to the stability of the financial system because the expectation that defaulting households could rely on help from the government increased the share of nonperforming loans (HNB, 2010). The moratorium remained an issue of ongoing public debate: radical civil groups demanded that the moratorium remain in effect, but in 2011 the government made a compromise, phasing out the foreclosure moratorium through a yearly quota. The quota applied to properties worth below 30 million HUF with a rate of 3% in 2012; these standards gradually rose to 5% by 2014 (that is maximum 3% and 5 % of properties with non-performing loans can be foreclosed). The actual number of foreclosures however reached only 75-85% of the quota due to the weak housing market and the banks choosing other solutions rather than foreclosing. Nevertheless, right after the last election, in May 2014, the new parliament introduced a moratorium again for an undefined period, until a final solution for the defaulted FX mortgage debtors is agreed upon. After 2015 the quota system was terminated.

3.2 National Asset Management Company – buying the defaulted properties

This special buy-to-rent scheme was introduced in 2012, managed by the newly established National Asset Management Company (NAMC). NAMC can buy a limited number of delinquent loans and offer a renting option to the former debtor. The ex-owner become a tenant with a contract (without time limit) with an option to buy back the unit for 5 years. By mid-2014, NAMC had got more than 25 000 offers, and actually bought 16500 properties at the average price of 3.7 million HUF, which is 46% of the price in the time the contract was conducted (Csillag, 2015). The scheme targets the most vulnerable of borrowers who have children, but the conditions has been relaxed and other vulnerable groups become eligible. The government increased the number of flats available for purchase to 35 000 in 2016. A significant problem of the scheme is that a 30% of the families targeted by the scheme cannot even afford the low rent set by the law due to preexisting debt (e.g. for public utility fees). The scheme does not provide a private insolvency solution to the former debtor. While the program may be the largest social housing program since 1989, problems surrounding the financing and maintenance of the sector remain unsolved. An important element of the program, that it is voluntary, that is both the debtor and the lander have to agree to join the scheme. In 2016, the evictions were initiated for the non-paying tenants, which implied protests by the lobbying organizations. Attempts are made to manage the problem of non-paying tenants by involving social institutions (with contribution of the Maltese Charity Service and the Calvinist Church's social organizations) but no considerable change has occurred in the attitude of non-paying tenants so far.

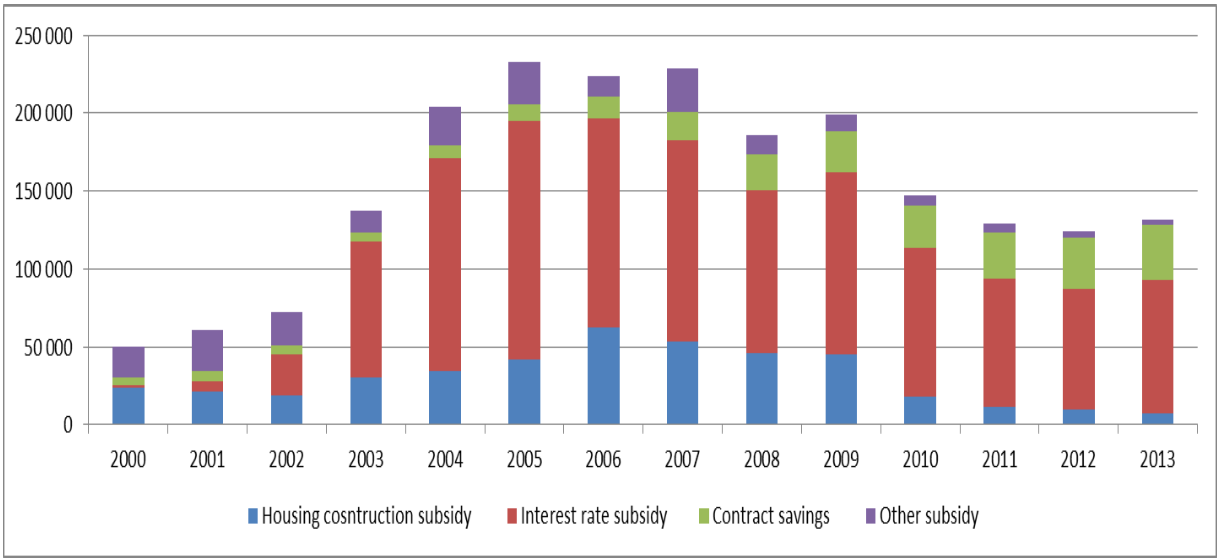

Figure 3 Housing subsidies in Hungary, 2000-2013 (in billion HUF) Source: Government

3.3 Early repayment scheme

The Early Repayment Scheme (ERS) ran from September 2011 till the end of February 2012, allowing borrowers to fully repay their CHF mortgages at a reduced exchange rate of HUF 180 to the Swiss Franc, when the Franc was trading at HUF 235-250. As a result 23.3% of the mortgage loans – HUF 984 billion (or EUR 3.3 billion) – were repaid at discounted exchange rate, and HUF 1,355 billion (about EUR 4.6 billion) was repaid at the current exchange rate.[10] New loans provided 30% of the source of the early repayment; the remaining 70% was households' savings (life insurance, securities, etc.), which clearly indicates this opportunity was mostly only feasible for wealthier families. (Of course the interest rate increased as the early repayment scheme started, but it was justified with the increased risk.) In the end, ERS and most of the similar 'mortgage rescue' efforts can be summarized as a bailout measure for higher income households in a temporary difficulty. According to expert estimates, 15% of the repaid sum was connected to the informal economy. The so-called 'Home protection law'[11] did, in fact, stipulate that the Tax and Customs Administration cannot check the source of early repayments in connection with the untracked wealth increase. The banks had to make up for the cost of the discount, writing off a gross loss close to HUF 350-400 billion (0.5% of the GDP). According to the agreement between the banks and the government, financial institutions will be able to write off 30% from the special Tax on Banks, so the cost of the program will eventually be shared at 70%-30% between the banks and the government. This implicit subsidy was offered to the households who could finance the repayment (either from saving or loans), which had a regressive effect on income distribution. As a consequence of the ERS, the quality of the remaining stock will worsen as a recent report on K&H Bank demonstrated: the share of NPL in the stock of mortgage loans increased from 10.7% to 13.4% in the last there years.[12]

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[10] PSZAF, 2012a: PSZAF. 2012b. Kényszerértékesítésre kijelölt ingatlanok adatai [*Parameters of real estate selected for foreclosure*].

[11] Act CXXX of 2011 on the amendment to Act CXII of 1996 on Credit Institutions and Financial Enterprises in relation to the expansion of home protection measures

[12] See HNB, 2011 for detailed analysis.

3.4 FX loan rate cap scheme

The *FX loan rate cap scheme* was introduced in 2012.It put an exchange rate cap on repayments and opened a special account for the exchange rate differential. Due to the number of low applicants, the eligibility criteria were eased and the deadline modified several times to make it more accessible and attractive for borrowers. Once qualified, interest components above the exchange rate limit were paid by the bank and the government (at a ratio of 1:2); borrowers had to repay only the principal part, including the interest on the latter. The preferential rate period will last until June 2017 at the latest, but there has been uncertainty surrounding the accumulated debt on the special account at the end of the program. Despite the government's active encouragement to enter this program, it never gained much popularity: between 2011 and 2013 around 40% of eligible households chose this option (178 thousands borrowers in total). The somewhat contradictory government communication led borrowers to expect more advantageous programs in the future. The program with the forced conversion introduced in 2015 stopped. (See later under 3.6.)

3.5 Compensation for "unfair" banking practice

By 2013, the various court cases launched by the movements were brought to the *Hungarian Supreme Court (Curia*), which ruled in favor of the banks. The politicians (the Prime Minister among them) criticized the Curia, claiming it was biased towards the banks. On 16 June 2014 the Curia's ruling was modified: firstly, the court concluded that the practice of "rate spreads" (using different rates for buying and selling currencies) was unfair, and that the banks should have to use the HNB central rate; secondly, the Curia declared that the unilateral modification of the loan contract (e.g. interest rate) by the banks was unfair, and the monthly installment should be recalculated compensating the borrowers; thirdly, the Curia declared that the exchange rate risk should be borne exclusively by the borrower.

3.6 Forced conversion of FX loans

The conversion of the forex housing loans to HUF loans has been promoted from the beginning, but no substantial support was given. (The conversion fee was pardoned.) Very few borrowers used this option, because they hoped for better solution.) In November 2014 the government made a decree which forced the banks to convert the FX mortgage loans into HUF at a current market based FX – HUF exchange rate (1 CHF=256,47 HUF, 1 EURO=308,97). The future initial interest rate of the converted FX mortgage loans is also regulated, and cannot be changed for three years. This conversion happens parallel to the settlements, which compensate the debtors for the exchange rate spread and the unilateral interest rate increase. Consequently, typical borrowers after the conversion and settlement will be in a better position. However the most radical groups were quite unhappy with this solution, because with the converted new HUF loans they will lose any basis for compensation.

3.7 Private bankruptcy law

KDNP (Christian Democratic People's Party) submitted a bill introducing private bankruptcy in the spring of 2015[13], which provides bankruptcy protection for the residents (earlier this opportunity had been available only to companies). It aims to assist those who are unable to pay their debts in concluding an agreement with their creditors, restore their solvency, and ultimately get out of the debt trap. Private bankruptcy can voluntarily be initiated only by the debtor. The debtor can only apply for private bankruptcy under severe conditions (e.g. if their property and income that can be allocated for repayment are insufficient for debt repayment; they have a debt that amount to 2-60 million forints and are enforceable in an office or on court, they acknowledge 80% of their debts, etc.)

Private bankruptcy may be requested with housing loan, mortgage, bail and maintenance fee arrears. The private bankruptcy protection and the severely supervised debt repayment period last for 5 years but can be extended to a period of 7 years. If the debtor has fulfilled their obligations in a disciplined manner and has cooperated to a full extent, then the court exempts them from their remaining debts. This can mean remitting up to 55-95% of their debts. On the basis of the experience obtained so far, private bankruptcy has been applied by only few persons, primarily owing to the excessive administrative burdens.

4. Conclusion: evaluation of the programs

The mortgage rescue programs launched by the government can be characterized as orthodox or unorthodox programs, more exactly, we can differentiate between the programs where the "orthodox" elements are dominant and programs where the "unorthodox" elements are more significant.[14]

In our (Hungarian) case, the unorthodox approach means that the burden of the crisis be should put on the banking sector (and as much as possible, on the foreign owned banks), and it has no targeting to the needy population, but it mostly supports the middle class to generate purchasing power. We have seen the motivation of the government in section of 3.2, which explains the existence of the orthodox programs, that is, the fear of facing macroeconomic risks, mass eviction and unrest of the poor. The fiscal and financial aspects of the game between the government and the banks are very complicated. The government even in 2010 already levied a punitive tax on the banks, promised that it would be phased out in two years, which has not happened. Most of the cost of the mortgage rescue programs was paid by the banks, which suffered losses in 2014. As a compromise, the banks can write off some part of their loss against the tax they paid, which gives some incentives for

[13] http://magancsodvedelem.hu

[14] However there were other programs not mentioned in the paper, which have been aborted. For example, in the small town of Ócsa a social housing estate was built, which cost a lot for the budget and was very unpopular, widely criticized by the public.

cooperation. But it is very difficult to predict the result, how the banks will behave in the future and what the macroeconomic cost of the anti-bank programs will be.

Table 1. Summary of the programs

Type of the program	Program	Start-End	Main characteristics	Cost and number of beneficiaries
Un-Orthodox	Early Repayment	November 2011 – February	The program supported high-income families, banks were not consulted, it had a huge regressive effect socially.	350-400 billion was paid by the banks, the government gave tax exemption for banks up to 30% of the cost (less tax revenue), 160 thousand used this option
Un-Orthodox	Moratorium and quota	2009-2012 2012-2015	The moratorium was too long and weakened the position of the banks, but the quota system got the support of the banks	Contributed to the increase of the share of NPL loans
Orthodox	FX Loan Cap scheme	2012-2015	This program was quite acceptable for the banks, their losses were manageable.	Costs were shared between the borrower, state and banks, 178 thousand participated, 40 % of the eligible debtors
Orthodox	National Asset Management Company	January 2012 -- continuing	Typical orthodox program based on voluntary participation	61 billion, 25 000 households, but it was increased to 35 000
Un-Orthodox	Compensation of unfair banking practice	November 2014 – expected end of 2015	Based on the decision of the Curia, and unilateral Parliament decree, banks are not consulted	Banks must pay an estimated cost of 900-1000 billion HUF.
Orthodox	Forced Conversion	January 2015	The conversion on market exchange rate is favorable for the banks but their loss can be increased because of the maximized interest rates.	
Orthodox	Private bankruptcy law	2015	The possibility of getting rid of debts, but at the price of placing the household financial affairs under control for several years j	No experience yet

With the forced conversion the story of the Hungarian FX loan has finished. Interestingly enough, the loan product was sold in the years of 2004-2008 (5 years), and the rescue programs lasted from 2009-2015 (6 years). Moreover the problem has not been solved because the quality of the mortgage loan in HUF currency is very critical: the number of the contracts which have more than 90 delays has reached 182 thousand. (HNB, 2015)

Table 2 Non-performing households' loans (Source: Hungarian National Bank)

		Loans in 90 days delinquency		Non-performing loans with less than 90 days delinquency		Non-performing loans together	
		Volume (HUF Bn)	Share (per cent)	Volume (HUF Bn)	Share (per cent)	Volume (HUF Bn)	Share (per cent)
Household loans	2014 Q4	1 143	19,2	-	-	-	-
	2015 Q1	873	15,9	332	6,0	1 206	21,9
	2015 Q2	878	16,2	318	5,9	1 196	22,1

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