

Speech by the President of Associação Portuguesa de Bancos, Mr Faria de Oliveira

Signing of agreement with the Ministry of Solidarity and Social Security on the creation of a real estate investment fund for residential rentals (FIIAH)

Social rental market

26 June 2012

Correcting the structural imbalances of the Portuguese economy is a really demanding task involving a strict fiscal consolidation programme with punishing austerity measures and the inevitable temporary impoverishment of the population, while seeking to create favourable conditions for economic growth and initially avoiding deep recession. This growth revolves around an appropriate model that favours openness to foreign countries and tradable goods and results in a growing, sustained increase in our competitiveness based on structural reforms and an effective capacity for business and innovation.

This equation of reconciling growth and deep austerity and making them happen as fast as possible is admittedly difficult without devaluing our currency and it can only be solved in a climate of stability and political commitment and an atmosphere of civic understanding, social peace and active solidarity.

It is a task that requires not only considerable judgement, vision and convergence between political powers, economic and social agents and society itself but also a strong collective will and courage in the face of today's adversities.

With more Europe (i.e. more cohesion, convergence, solidarity and integration), this will certainly be easier. But we must count mainly on business capacity, including banks, labour, solidarity and a talent for government.

We are living in times when corrective measures have to be taken, with inevitable social costs, and when we need solutions to minimise developing social problems.

We all know that buying a home has been encouraged in our country through mortgages, sometimes with financial and tax benefits, and also due to the non-existing rental market. The percentage of home owners in Portugal is 74.6%, while the European Union average is 68.9%. In Germany it is only 43.2%, in Denmark 53.6%, in the Netherlands 55.6% and in Austria 57.5%.

We must note that:

- a) Finance of the economy and households correlated to the real estate sector represents around 63% of total credit granted (47% mortgages + 9.4% construction loans + 6.3% credit for real estate activities).
- b) Mortgages account for 89% of loans granted to households.
- c) The average interest rate on mortgages fell from 5.99% in December 2008 to 2.39% in April 2012.
- d) The average monthly mortgage instalment in April 2012 was 291 euros.
- e) Default on mortgages, with a doubtful debt rate of 1.94% in April 2012, seems to be closely related to unemployment.
- f) There was no real estate bubble and prices remained remarkably stable, though with some negative impact on banks' balance sheets.

We are currently correcting a situation caused by blockages that should already have been eliminated. This government is changing the law to create the right conditions for a rental market that is sufficiently attractive and offers an alternative to home ownership.

However, at a time of great difficulties and limits on many households' spending, we need creative, innovative solutions taking particular account of those with low incomes.

Designing these solutions and programmes to implement them is the mission not only of the political powers but also of private agents.

It is in this context that we find the social rental market and this agreement between the Ministry of Solidarity and Social Security, Norfin - Sociedade Gestora de Fundos de Investimento Imobiliário, the seven signatory banks, the IHRU and the IGFSS. Local authorities are also participating in the programme.

The government is seeking to meet the need to stimulate residential rentals and urban renewal while also helping low-income households.

The Social Emergency Programme has set up a pool of properties available for lease by these families, with rents lower than the market average.

The banks cooperated with the Secretary of State for Solidarity and Social Security in developing the idea, which is in fact following local initiatives that

have proved a social success, though now at national level. They supported the government's initiative and made an active contribution by offering a number of properties that were ready for habitation. As the Secretary of State said, these properties will be included in the real estate investment fund for residential rentals, entitled Rental Solutions.

The banks also issued a call for tenders to select a management company specialising in real estate investment funds and the management of residential properties and their leases. The choice fell on Norfin.

There are also properties that are not part of the real estate investment fund and they will be managed by their owners (IHRU and IGFSS).

In the initial phase, there will be 1,080 homes coming from the banks at the end of 2012, corresponding to a portfolio value of 72.1 million euros. They are located in Porto, Lisbon, Santarém, Braga and Setúbal.

The banks have also committed to make a growing number of homes available and to cover the whole of the country.

Prime Minister, Minister, Secretary of State for Solidarity and Social Security, Ladies and Gentlemen,

During a period of great difficulties that began with the 2007-2009 sub-prime crisis and intensified with the sovereign debt crisis, the banks have not only demonstrated remarkable resilience in highly adverse circumstances but have

also participated actively, beyond their current mission (and with a clear sense of the country's needs), in efforts to solve the problems of Portugal and the Portuguese.

For example, at the height of the financial crisis following the collapse of Lehman Brothers, on their own initiative the banks provided households in greater difficulties with solutions enabling them to restructure their mortgages by increasing repayment times, offering grace periods, transferring the largest expenses to the end of the repayment period and allowing them to transform mortgage agreements into lease contracts with repurchase options. They came up with a prompt, appropriate response, indeed as they are doing now with regard to the over-indebtedness of households experiencing additional difficulties due to unemployment. Good practices are part of the character of good banks.

Another example was the banks' outstanding effort to finance the state's needs in the first four months of 2010. They acted in the country's interest. Most Portuguese banks suffered as a result of the downgrades by the rating agencies and the fall in market prices of the Portuguese debt. But they did what they had to do.

The accounting rules in effect up to the EBA's controversial decision stated that sovereign debt held stably and non-speculatively could not be devalued on the basis of market value. It was valued in accordance with the amount that would be repaid when it matured. The EBA decision constituted a revolution and broke an accounting practice that mainly hurt the banks holding securities from countries experiencing a sovereign debt crisis.

This crisis and its effects on the economy naturally affected the banks, which had to embark on strict deleveraging programmes and submit finance and recapitalisation plans, in accordance with the programme negotiated with the Troika. They are all monitored by Banco de Portugal.

The deleveraging and significant increase in risks analysis and management along with meticulous work by audit committees and the regular and extraordinary external auditors and greater prudential and behavioural supervision by the regulators led to greater selectiveness in granting credit. This naturally affected companies with fragile or decapitalised balance sheets.

In an atmosphere of economic crisis, banks' profitability obviously suffers, due to impairment, growth in defaults, the need to increase provisions and a reduction in net interest income. This has led to capital needs, very strict risk management policies and capital consumption, inevitable changes in business model and natural cost reductions.

But we should note that the Portuguese banks' current situation has improved where liquidity and solvency are concerned. The credit institutions' liquidity is much better at this time, thanks to very good performance by deposits, largely as a result of confidence in the bank's solvency, as demonstrated by their ratios and good results in stress tests and audits of their credit portfolios and the ECB's credit policy.

We all know that a capacity to finance the economy is vital. And while it is true that this does not depend only on obtaining credit on reasonable conditions but also on the use of the capital market and normalisation of payments between companies and between the state and companies, the fact is that 75% of the funding of the economy in the United States comes from the capital market but in Europe, 2/3 of companies' finance comes from bank loans.

Portugal therefore absolutely must have a strong banking system, i.e. one that is well capitalised, well provisioned and well governed with strict risk management practices and good profitability.

Via very strict management, the banks consider it their mission to support investment and it is in their interest to do so. We mean investment in tradable goods, innovation and internationalisation and funding for viable companies.

The growth of the economy basically depends on companies' performance. And this requires balance sheets and appropriate guarantees to allow them access to credit for their current business and for modernisation and expansion. The recapitalisation of companies and the attraction of capital are important conditions for growth, to strengthen existing enterprises and create new ones, thereby generating employment.

The banks' have been very active, taking part in the financial restructuring of companies directly or through vehicles in which they participate. They have been promoters of systemic solutions for the re-launch of the economy.

Several of them have also been stepping up the dynamics of venture capital, in the form of start-up and support for entrepreneurship, mezzanine or development capital (to grow and upgrade companies).

Efforts have been made to find innovative instruments and less usual ways of assisting companies in their recapitalisation, using private-equity funds (in possibly innovative forms) and bond issues in collaboration with the stock exchange and Alternext.

In a context of much stricter regulatory and supervisory demands for the banking sector, the recapitalisation of companies is still an extremely important issue.

But just as a fine new initiative has been launched today in creative collaboration between the Ministry of Solidarity and Social Security and the banks, for the good of the people, we can count on the same ability to generate appropriate solutions to the problems faced by the re-launch of the economy.

Finally, I would like to congratulate the Ministry of Solidarity and Social Security and assure the government of the banks' deepest commitment to fulfilling their mission.

Lisbon, 26 June 2012