

ALTERNATIVE BUSINESS OPPORTUNITIES: THE EMERGENCE AND WORK OF TANZANIA MORTGAGE REFINANCE COMPANY

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Introduction

History Of Mortgage in Tanzania

- ▶ Post independence –
 - Mortgages existed in Tanzania as the national agenda in providing housing to its citizens
- ▶ In 1972-
 - Housing finance scheme was launched and operated by the former Tanzania Housing Bank (THB) until 1995 when the bank collapsed
- ▶ At that time THB had provided around 14,000 mortgages

Presently

- ▶ A few banks provides mortgage products to a limited number of clients
- ▶ These banks have limited capacity to engage in mortgages due to funding constraints
- ▶ The constraints are mainly due to lack of long term funding as banks' deposits are short term while mortgage products are long term
- ▶ This apparent funding mismatch limits the ability of banks to actively engage in mortgage financing

As a result, Tanzania is one of the countries with the lowest mortgage/GDP ratio

	Mortgage debt/GDP	\$ GDP/Head
TANZANIA	0.30%	392
NIGERIA	0.50%	944
UGANDA	1.00%	382
SENEGAL	2.00%	941
GHANA	3.90%	749
NAMIBIA	20.00%	3,502
SOUTH AFRICA	34.00%	6,185

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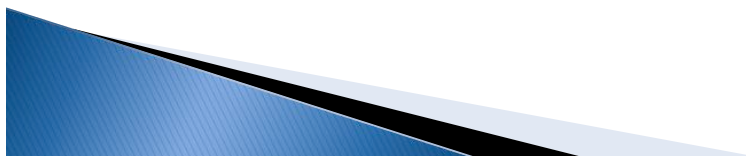
This is attributed to the following:

- Absence of mortgage products in the market after THB collapse
- Unfriendly land laws
- Absence of Real Estate Developers
- Lack of long term funding by banks to facilitate the provision of mortgage products



Success of Real Estate Sector depends on..

Government	Home Buyers	Legal Regulatory	Developers	Lenders
<ul style="list-style-type: none">• Encourages home ownership• Encourage property development• Seek to provide access to financing for low income group without providing subsidy	<ul style="list-style-type: none">• Obtain easy access to housing loan at reasonable rates• Obtain longer loan tenors• Vibrant market which allows price discovery	<ul style="list-style-type: none">• Efficient registry• Supportive and favorable laws• Low cost of compliance• Development of regulatory authorities	<ul style="list-style-type: none">• Access to land and infrastructures• Access to credit• Availability of market participants- Willing buyers and willing sellers	<ul style="list-style-type: none">• Availability of long term funding at low rates• Primary lenders are able to refinance their existing portfolios• developed debt market



Actions Taken in Tanzania

- ▶ To resolve those issues and encourage home ownership, the Government of Tanzania has established a Housing Finance Project (HFP) with the support of the World bank to spearhead the reintroduction of mortgages in Tanzania
- ▶ The project aims among other things, enabling the recreation of mortgages in the country by emending land laws, introducing Mortgage Finance Act 2008 and supporting creation of Mortgage Liquidity Facility.
- ▶ Tanzania mortgage refinance company (TMRC) is a result of the Housing Finance Project.
- ▶ The establishment of TMRC is set to bridge the funding mismatch which is apparent if banks were to offer mortgages



Mortgage liquidity facilities

- ▶ A Mortgage Liquidity Facility (MLF) is a specialized financial institution designed to support long term lending activities by Primary Mortgage Lenders (PML)
- ▶ Tanzania Mortgage Refinance Company Limited (TMRC) is a mortgage liquidity facility (MLF) created as a private sector institution owned by the banks with sole purpose of supporting banks to do mortgage lending by refinancing banks' mortgage portfolios

TMRC Charter

- ▶ TMRC is licensed by Bank of Tanzania (BOT) as a non-deposit taking financial institution for the purpose of conducting its business
- ▶ In addition, TMRC will also be licensed by the Capital Markets and Securities Authority (CMSA) for the purpose of bond issuance
 - The Charter of TMRC reflects its unique role in being a single purpose vehicle
 - It restricts the Company from undertaking any other activities (such as taking deposits, commercial loan refinancing or lending directly) apart from the ones for which the Company is established

Purpose

- ▶ TMRC serves as a secure source of long-term funding at attractive rates while ensuring sound lending habits amongst banks
- ▶ TMRC acts as an efficient way of connecting long-term investors with the institutions generating long-term assets
- ▶ TMRC will lead to the establishment of specialized housing finance companies in the private sector

Role of TMRC

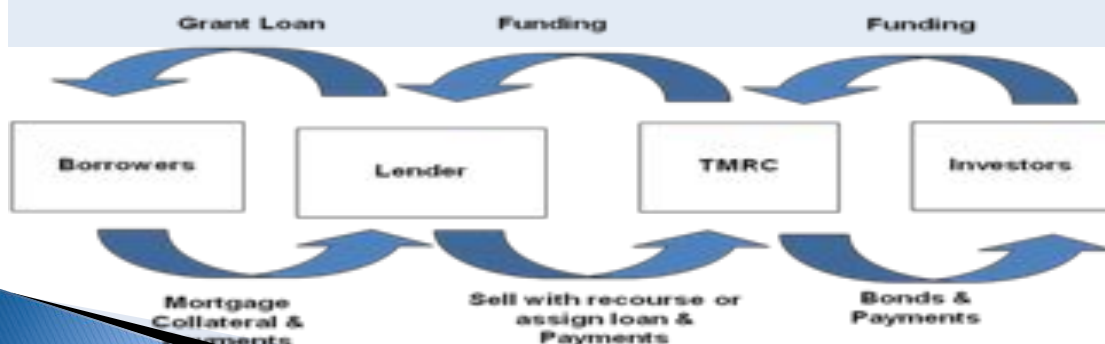
- Provision of secure long term funding at attractive rates to member banks to continue lending to their clients
- Lowering the cost of funds, which can lead to a lowering of mortgage rates, thereby improving affordability and extending the range of potential borrowers
- Facilitating member banks to extend the mortgage maturity to be in line with normal mortgage products
- Contribute to the growth of Tanzanian capital markets through the issuance of TMRC bonds to source funds for long term lending to member banks
- Assist in the standardization of mortgage practice in Tanzania through specialized training to member banks on the origination of mortgages
- Facilitating the entry of new mortgage lenders in the market due to the existence of MLF which guarantee the funding of mortgage portfolios

Key benefits

- ▶ Allows for greater competition in the mortgage market
- ▶ Key ingredient in growing mortgage market in an underserved economy
- ▶ Acts as a force for standardization in the market, pushing Member banks to adhere to best practice
- ▶ Acts as an intermediate step on the path to a full secondary mortgage market
- ▶ Acts to deepen the financial market more generally by providing a long term investment to institutions with long term liabilities
- ▶ Can be a tool for delivering policy objectives such as the promotion of affordable housing or the promotion of local currency lending

Refinancing Cycle

- ▶ TMRC core business will be to refinance portfolio of mortgages originated by member banks
- ▶ The portfolio is expected to have been originated and remains in the member bank balance sheet for a minimum period of six months before a member bank applies for refinancing
- ▶ TMRC will refinance the mortgage loans of member banks with recourse to the banks
- ▶ To start with, TMRC will utilize loan from World bank to refinance the portfolio of member banks
- ▶ Once the loan is exhausted, TMRC will move to raising funds from capital markets by issuing bonds





TMRC Achievements So Far

- ▶ Achievements so far
 - ▶ Completed legal and regulatory requirement
 - ▶ Policies and procedures are completed
 - ▶ Recruitment of qualified staff
 - ▶ Marketing strategy completed

- ▶ Complete and up to date IT infrastructure needed to become fully operational



Major Obstacles

- Introduction of VAT on sale of properties
- Non preferential risk weight to mortgage assets
- Lack of enough developers
- Delays from member banks to launch mortgage products
- High cost of transfer & Compliance
- Under developed debt market
- Excess short term liquidity
- Absence of legal aspects of securitization

Future work plans

- Issuance of TMRC bonds
- Encouraging establishment of mortgage information databank
- Stimulating establishment of mortgage finance institutions
- Stimulating establishment of mortgage insurance products
- Encouraging banks to offer fixed rate mortgage products
- Full securitization/ establishment of FULL secondary mortgage market

Myths About TMRC

- Provide mortgage loans to the public – another THB
- Provide interest free loans
- TMRC is a department of BoT
- It will provide mortgage to retirees
- Provide mortgage loans to the poorest of the poor
- TMRC will fix interest rates to below 10%



Similar facilities in other countries

- ▶ Mortgage Liquidity Facilities (MLF) have played a key role in facilitating growth of mortgage market in many parts of the world
- ▶ Some of the MLF which have been established and are working include Egypt (Egypt Mortgage Refinance Company) [EMRC] which was established in 2006 with support of World Bank
- ▶ Other countries include Jordan Mortgage Refinance Co. (JMRC) established in 1986, France and Malaysia