

African Union For Housing Finance Annual Conference

Konrad Reuss
Standard & Poor's

October 2010

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Issues affecting housing finance in Africa

- **Urbanisation and rapid population growth**
- **Un-/underdeveloped capital markets and financial systems**
- **Long-term lending often unavailable (a legacy of lacking macro-stability: high interest rates, high inflation, volatile currencies)**
- **Weak institutional framework prevents development of mortgage market**
- **Challenge of finding long-term capital for housing finance and mortgage lending**

Institutional framework

- **Land title and land register**
- **The problem of ‘tribal’ or communal land**
- **Opaque transfer rules, appraisal problems and unclear ownership**
- **Foreclosure difficulties**
- **Tax and regulatory framework for mortgage financing**

The challenge of securing capital for housing finance

- **Banks focus on short term assets not the private sector's long term financing needs**
- **Capital markets, particular in low income countries in Africa, still in early development stages**
- **Where bond markets exist, mainly government bond markets**
- **Low saving rates and underdeveloped institutional investor bases (mainly banks) result in weak demand for debt securities**
- **Markets often are illiquid**
- **A positive note: Term structure however has lengthened in most African debt markets**

S&P ratings in housing finance

- In the developed world, ratings have become widely accepted credit benchmarks in the social housing sector
- Growing global demand for social housing requires significant investment and private sector finance
- The US has traditionally used bond markets for social housing development; in Europe bank funding is well established, but bond financing is a more recent development
- Standard & Poor's rates mortgage backed bonds and banks that provide housing financing, but more specifically also housing association that provide social, affordable housing
- Investors in social housing need to understand regulatory systems, level of government support and the nature of providers
- The UK example: growing number of ratings on individual housing associations

S&P Government Related Entities (GRE) Methodology

- Housing Associations are generally seen as GREs and a specific rating methodology is applied
- GRE's are enterprises potentially affected by extraordinary government intervention during periods of stress

S&P Government Related Entities (GRE) Methodology

The GRE analysis is based on the analysis of the following elements

- The GRE's stand alone credit profile (SACP)
- The government's rating
- Our opinion of the likelihood of timely extraordinary intervention; as derived from our assessment of the importance of the GRE's role to the government and the strength of the links between the two

Stand Alone Credit Profile

Stand alone credit profile of an association depends on our assessment of the

Business Profile

Financial Profile

...of the association including ongoing government support

Rating methodology for housing associations

Business Profile

- **Government & Regulatory Support**
- **Business Strategy & Development Strategy**
- **Governance & Management**
- **Demand for Property & Asset Quality**
- **Operational Performance**

Rating methodology for housing associations

Government support and effect on the rating

- **Strong regulatory regime**
- **Housing benefit receipts**
- **Case by case additional supportive action possible**
- **No explicit guarantee from Government**
- **Timeliness of financial support**

Rating methodology for housing associations

Financial Profile

- **Financial Policy**
- **Financial Performance & Interest Coverage**
- **Capital Structure & Contingent Liabilities**
- **Cash flow Analysis**
- **Liquidity & Flexibility**

Rating the issue

The different types of issue ratings that we have seen in the social housing space are :

- Corporate unsecured**
- Corporate secured; and**
- Structured transactions**



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