



Housing Finance in Africa: Are we Post Crisis Yet?

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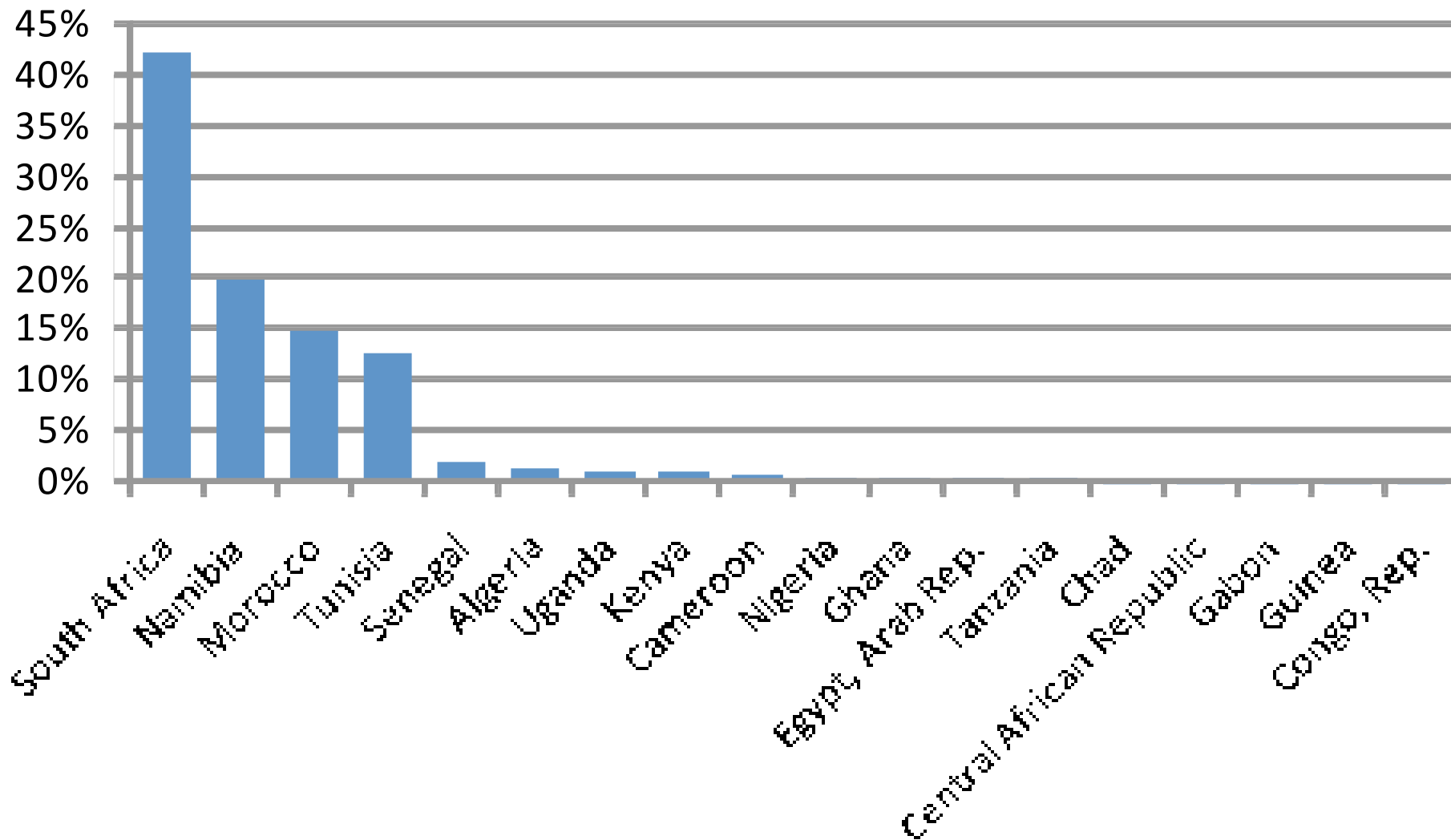
Outline

- **Crisis in Africa?**
- **Financial Crisis**
- **Growing Housing Demand in Africa**
- **Challenges**

Housing Finance Crisis in Africa? (1)

- **Housing Finance Markets still small so less impact**
- **Property markets on the whole have not had bubbles such as in Spain, Ireland, Latvia, US, UK,...**
- **No toxic sub-prime lending in Africa – most loans done on conservative basis.**
- **Housing is a sizeable and durable investment: needed market debt leverage**
- **Securitization limited to South Africa**

Mortgage Debt outstanding to GDP



Source: Central Banks, World Bank mortgage database

Housing Finance Crisis in Africa? (2)

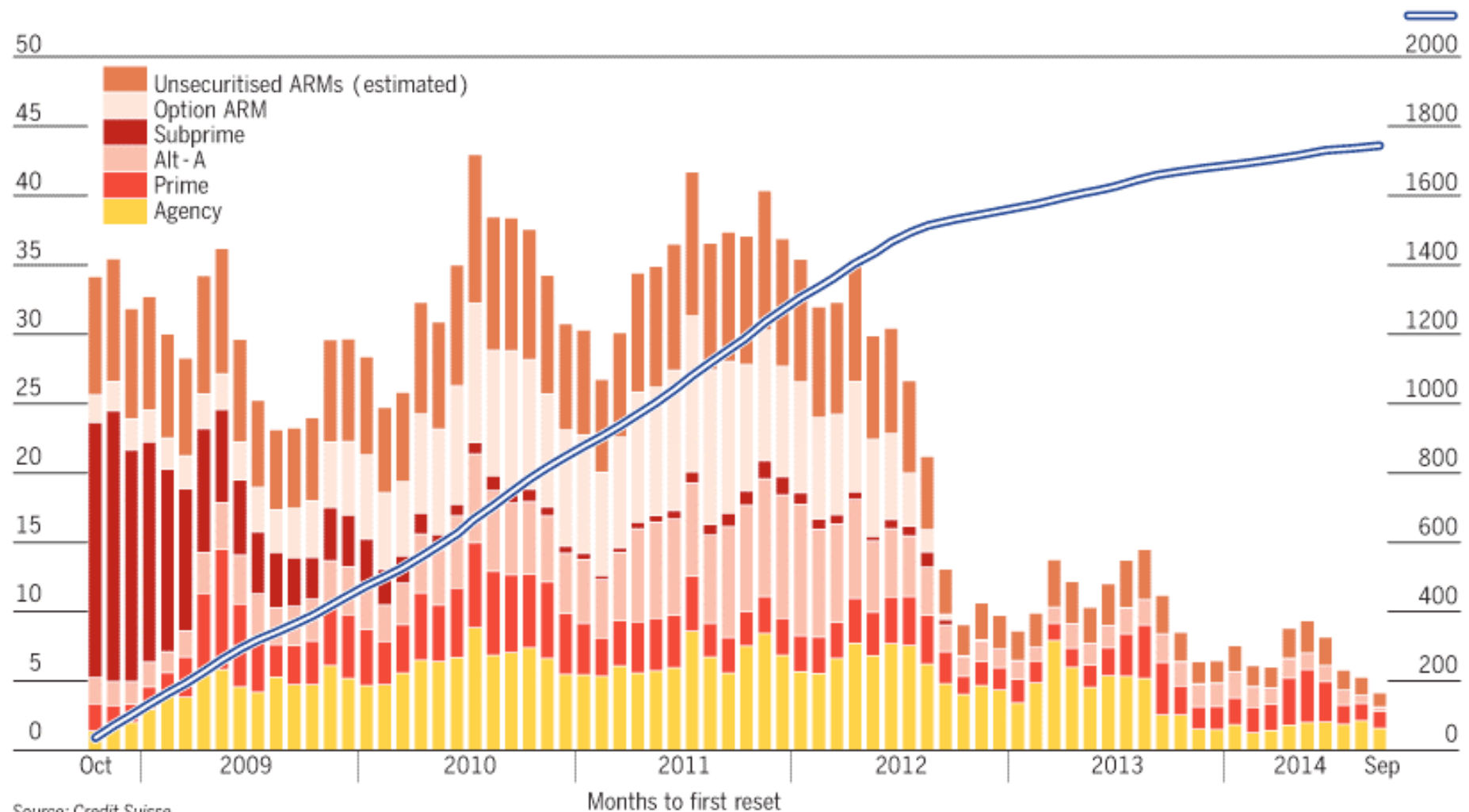
- **Secondary effects of crisis:**
 - Scaling back of expansion plans for banks (Nigeria in particular)
 - Reduced access to debt and capital in international markets
 - Less interest in developing secondary mortgage markets
 - Food crisis
 - Lower World growth
 - Lower remittances
 - Less property investors (North African market in particular)

Crisis still running in US

Next wave of US mortgage defaults

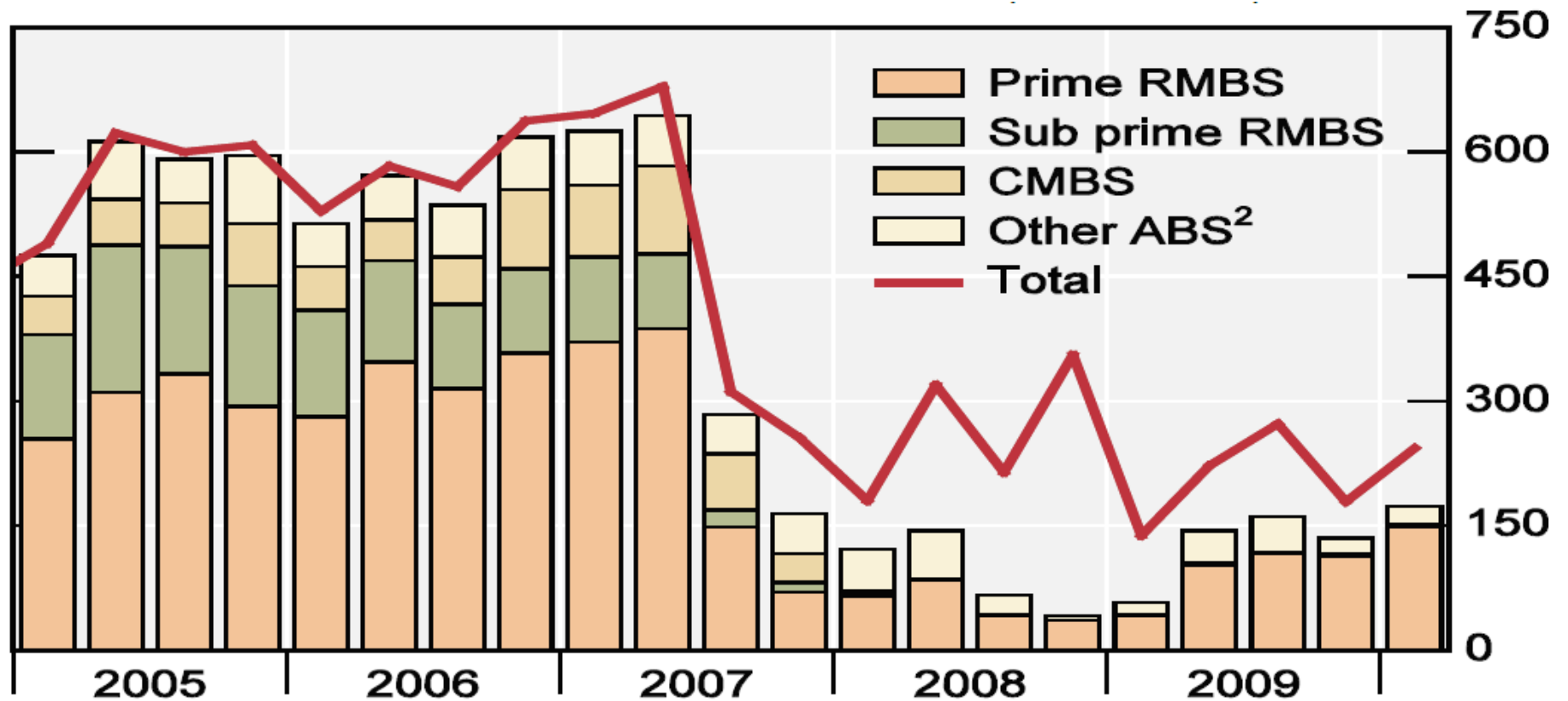
Amount (\$bn)

Estimated cumulative reset amount (\$bn)



Source: Credit Suisse

Secondary Mortgage Markets well below peak



Financial Crisis rolls on

- **Rising unemployment with falling house prices can mean more losses for banks**
- **End of mortgage bailout plans and foreclosure moratoriums could lead to more repossessions**
- **Effect of fiscal tightening and end of stimulus packages ?**
- **Lenders still lending cautiously.**
- **Some signs of inflation**

New Capital Adequacy framework

- **Basel III framework agreed**
- **Will mean higher Tier 1 capital ratio**
- **Long implementation period up until 2019**
- **Includes a variable charge meant to work with cycle**
- **Still work to do on risk weights to reflect credit risk of different assets**
- **Would framework have prevented crisis?**

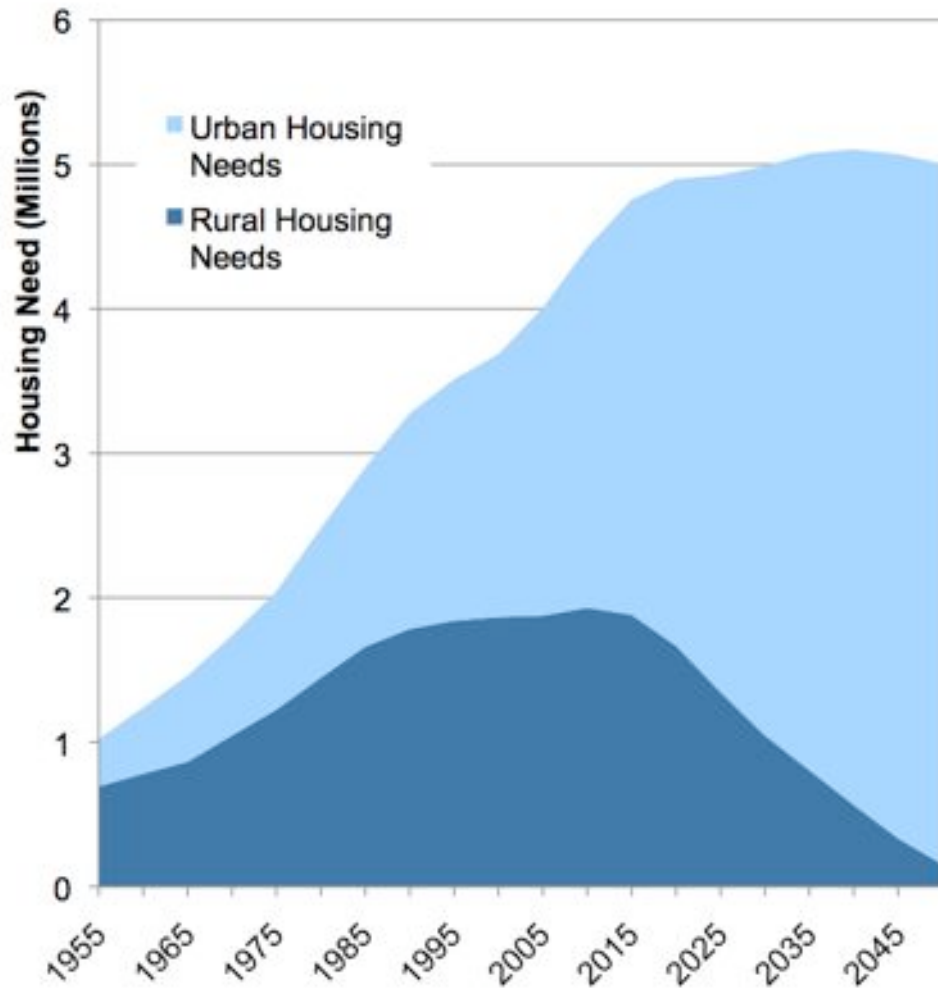
Need for Mortgage Regulation

- **Increasing focus by regulators on regulating products not just banks**
- **Several countries looking at introducing LTV limits and/or payment to income limits.**
- **Important to maintain focus on credit risk and not on collateral value only**
- **On-going work on responsible lending standards**

Consumer Protection

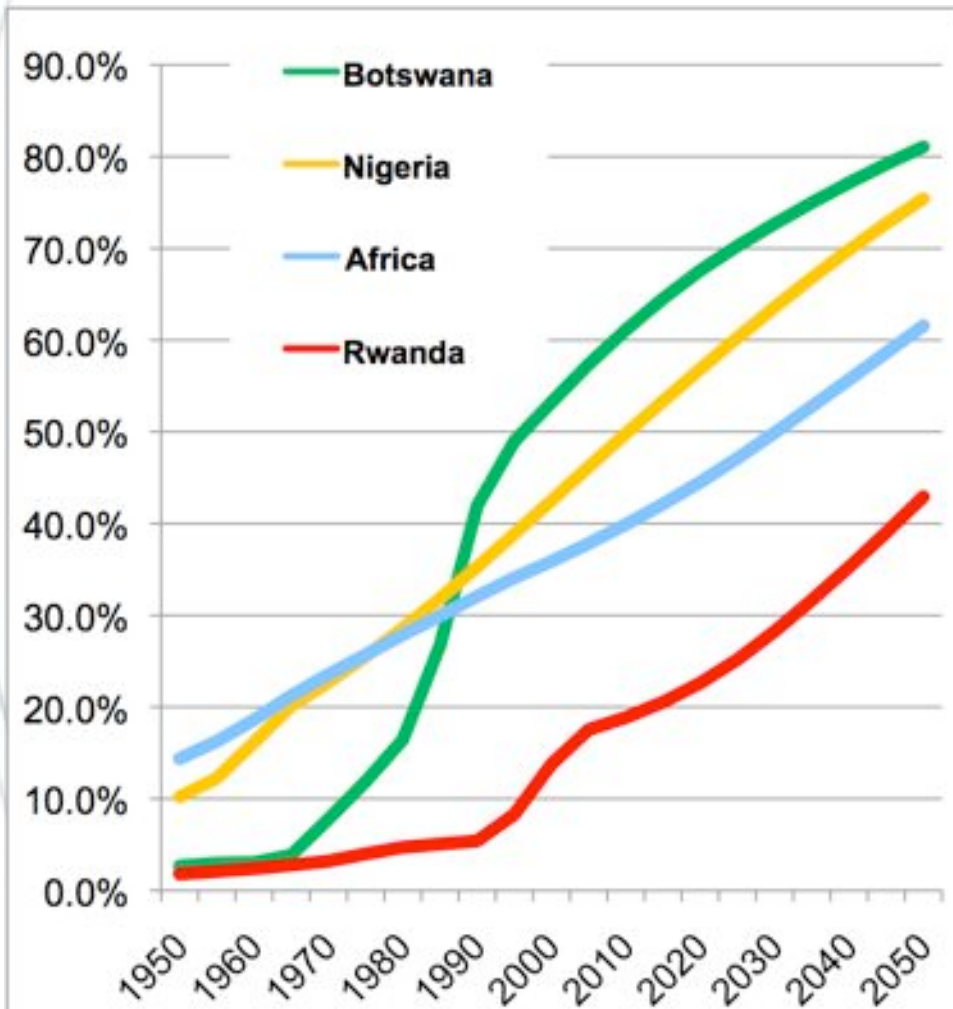
- **New agencies in EU, UK and US with specific remit to protect consumers**
- **Relevant for emerging markets also where consumers may have lower financial literacy**
- **Need for standards relating to charges, pricing, fees.**
- **Need for clear explanation of risks not just a signature removing any liability.**

Housing Needs



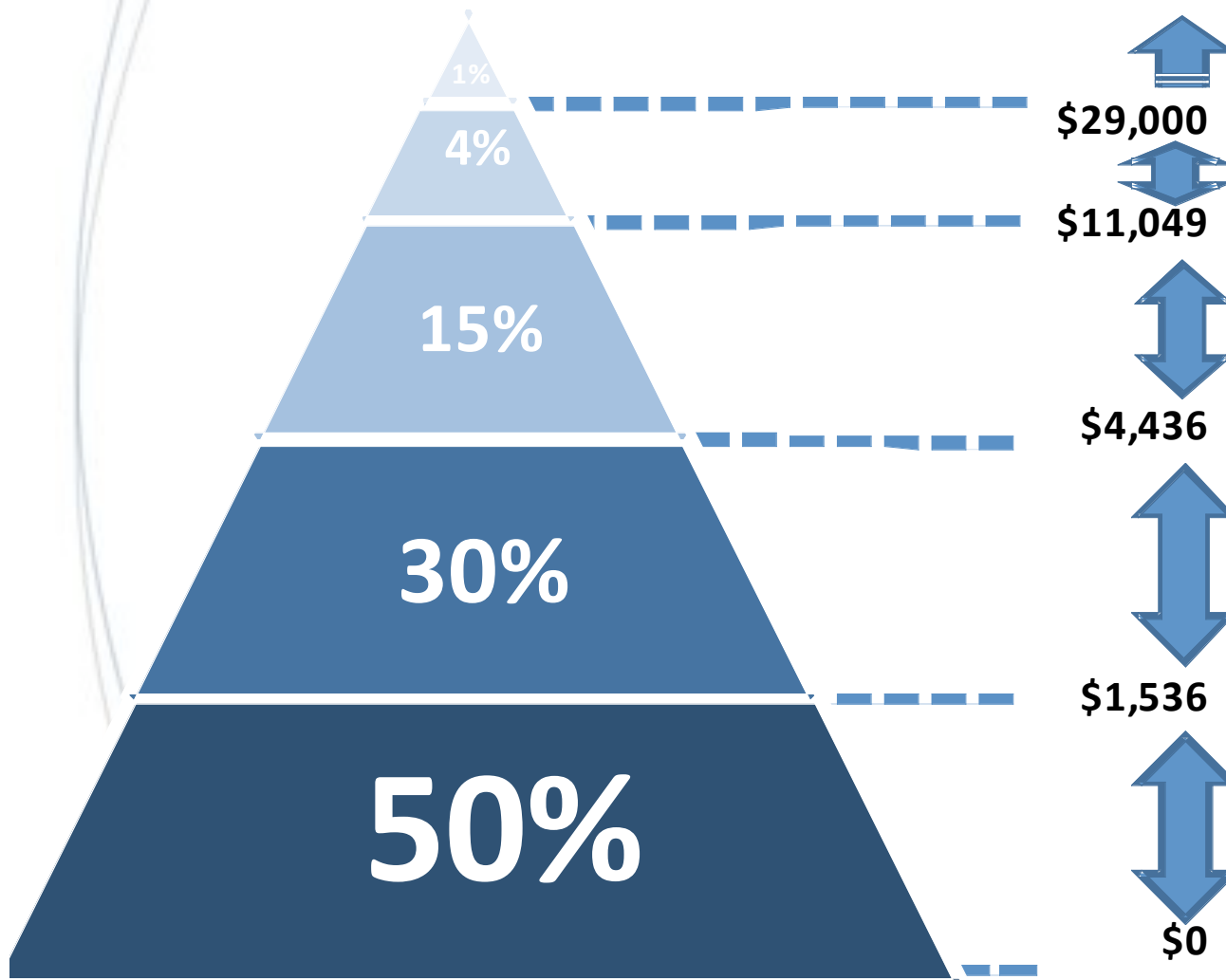
- **Housing need currently around 4m houses a year**
- **Over 60% needed in urban areas**
- **Housing need will rise to 5 million a year, almost entirely in cities.**
- **This reflects, new housing needs and not existing back-log or**

Rapid Urbanisation



- **Urbanisation across Africa currently at 40%**
- **Wide variation from 11% in Burundi to +90% in Senegal or Sierra Leone**
- **World has a 50% rate**

Africa – Household Income distribution Pyramid



- Over 50% on less than \$1 a day

- Viable Income for a mortgage is around 3% of the total population

- Many countries much lower, with a small wealthy minority

- Income distribution very skewed with Very rich/Very Poor

- Caveat - difficult to reconcile household data with GDP data



Source: PovCalNet database, World Bank

How to build inclusive and sustainable HF system?

- **Sound foundations**
 - Macroeconomic stability
 - Workable legal system (property titles, foreclosure)
 - Risk management and funding tools
 - Sound financial sector regulations
 - Competing and innovating private lenders
- **Affordable housing (multiple supply constraints)**
- **Enabling role of the State**
 - Less of direct lender/builder, rather build conducive market environment, catalyst role to expand accessibility

Challenges ahead

- Unsatisfied demand in emerging economies
- Housing not perceived as a safe asset class anymore
- Confidence problem of investors towards mortgage securities
- Confusion between lower income and “subprime”
- Questions about Model of specialized non-depository lenders
- Better regulated primary & secondary mortgage markets
- How should Governments support housing?

Promote residential rental markets

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