

Breakout Session 1: Mortgage Lenders

How can we Incentivize Lenders to Grant more Housing Loans?



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Work program for break-out session 1 on mortgage lenders

1. Feedback on African Low Income Housing Finance Facility
2. Define levers to increase housing finance activities/volumes of lenders
3. Goal: input for
 - Durban Declaration
 - Draft Africa Common Position on Habitat III



1. A regional liquidity facility for Sub-Saharan Africa – more funds for lenders to grant mortgage loans?

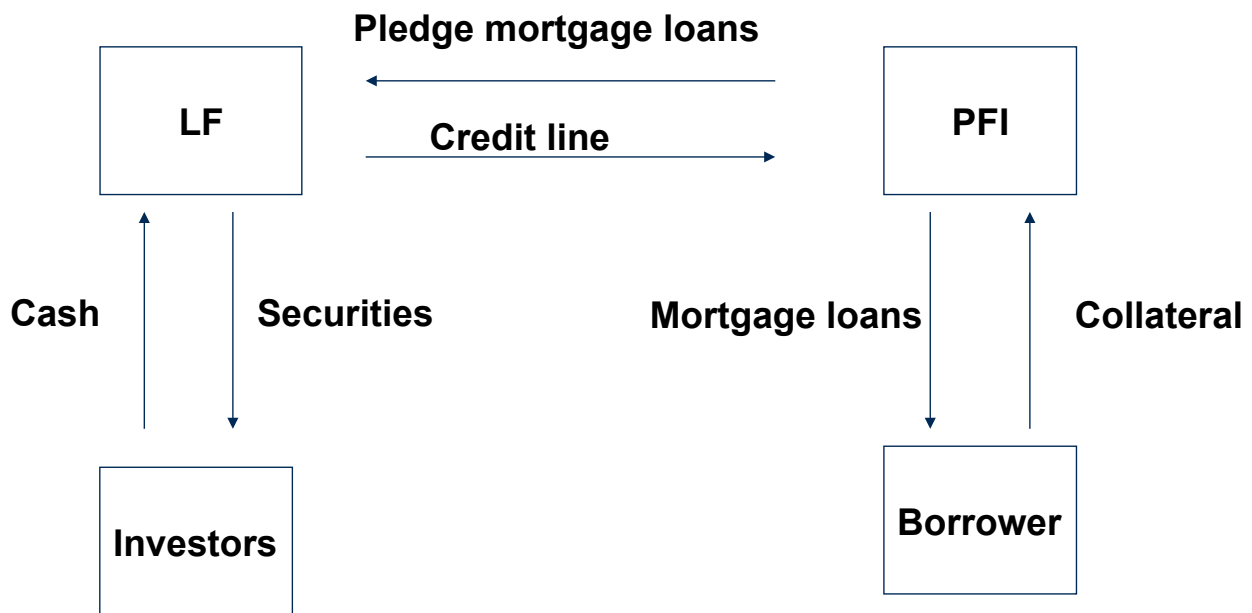


Liquidity facility (LF) – definition

A liquidity facility is a secondary mortgage market entity that purchases/finances mortgage loan portfolios from banks or other lending institutions and issues securities to investors backed by the acquired mortgage debt

- Purchase of loans
- Provision of credit lines to participating lenders

Structure of a LF



A mortgage liquidity facility is NOT...

- ...a State Housing Bank
- ...a subsidy vehicle
- ...a securitization conduit (e.g. Fannie Mae)
- ...a risk taker (interest rate or credit risk)
- ...a mortgage lender



Benefits of a mortgage liquidity facility

- Reduces cost of funding and lengthens maturities (risk management)
- Introduces new investment opportunities via capital market
- Promotes uniform lending standards
- Improves access to housing finance
- Introduces new loan products (e.g. fixed rate mortgages)



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LF – risk management issues

- Credit risk: borne by partner financial institutions (recourse clause)
- Interest rate risk: ??
- Liquidity risk: ???
- Often, LFs receive a funding allocation from Central Bank which helps manage interest rate and liquidity risk

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Proposed criteria to analysis impact of LFs

- Cost to borrowers
 - Loans terms should become longer and interest rates go down
- Cost to lenders
 - Cost for adjusting loan underwriting and servicing procedures
 - Cost for joining the LF Program
 - Lower cost of refinancing
- Cost to government
 - Government may inject some capital into LF
 - Private ownership preferred (e.g. PFIs)
- Long-term sustainability
 - Promotes primary market and support capital market development
 - Promotes standards in underwriting and servicing of mortgage loans

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Prerequisites for a MLF

- Mortgages!
- Working primary market
- Effective foreclosure law
- Investors
- Efficient method for transferring or assigning mortgages
- A fixed income market



Examples of liquidity facilities – Africa and other parts of the World

- Sub-Saharan Africa
 - Nigerian Mortgage Refinance Facility
 - Tanzania Mortgage Refinance Company
 - Caisse Régionale de Refinancement Hypothécaire (Westafrica)
- Others
 - U.S. Federal Home Loan Bank Board
 - Cagamas (Malaysia)
 - Jordan Mortgage Refinance Company
 - Titularizadora Colombiana
 - Caisse de Refinancement de l'Habitat, France
 - And others...



Presentation by William Waga on Low Income Housing Finance Facility

- Objective of facility is to mobilize funding to be channeled into housing projects



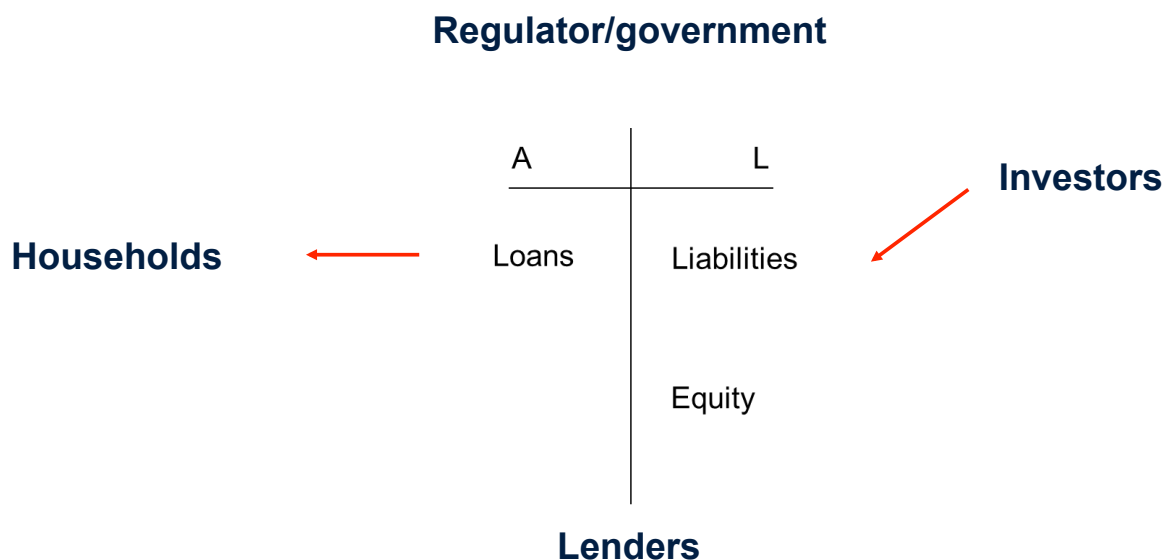
Discussion on presentation

- Feasibility of the proposal (relevance, justification for establishment, etc.)
- Challenges to implementation
- Proposed funding structure
- Suggestions for improvement



2. Identify levers to increase funds to be channeled into housing finance

4 stakeholder groups influence choice of levers



What are the interests of every stakeholder group?

- Borrower
 - Affordability and reliability
- Lender
 - Risk management, funding and security
- Investor
 - Stability and adequate return in relation to risk
- Government
 - Access to housing and access to finance

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What are the interests of every stakeholder groups?

- From borrower's perspective
 - Which products serve best my needs?
 - Where can I receive advice?
- From lender's perspective
 - How good is the security offered?
 - Which funding is available (cost, term, etc.)?
 - Which products do I need to offer to serve my customers?
- From government's perspective
 - Which regulatory and institutional framework is required to allow for competitive and transparent mortgage market?
 - Which other measures may be required to improve access to housing?
 - How to protect consumers?

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What makes housing and housing finance markets thrive?

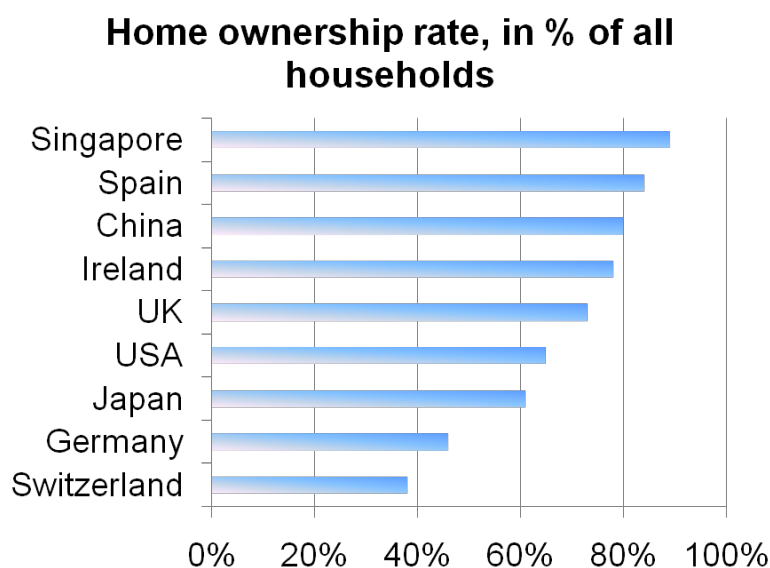
- Healthy and functioning enabling environment
 - Titles
 - Bankruptcy/foreclosure procedures
 - Investor protection
 - Sustainable financial sector
- Transparency and access to information
 - Supportive monetary policy
- Lending standards
 - Consumer protection
 - Primary market first



Roadmap to infrastructure of well-functioning housing and housing finance sector



Most private households long for home ownership irrespective of culture or country



- Purchase of a home is emotional decision
- Home ownership is prerequisite for marriage (China)

Source: A. Pollok, EMF, Dragonomics, US Census Bureau, national statistics

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What worries investors?

Quality of enabling environment

- Legislation on land and registration of titles
- Enforcement of titles
- Property valuation rules

Cyclical effects of property markets within an economy:

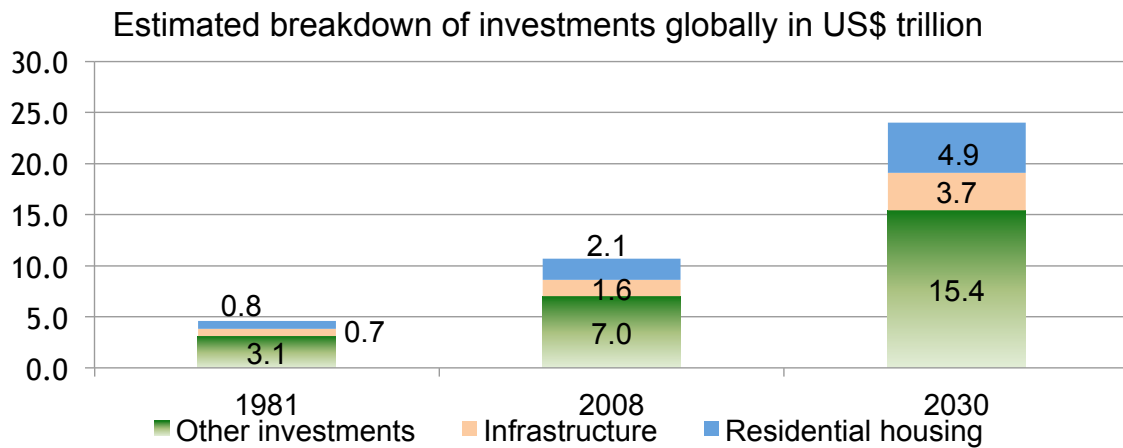
- Reinforcement of booms and busts

Changes in location preferences

- Migration trends to urban areas
- Neighborhood risk

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Why invest in residential real estate?



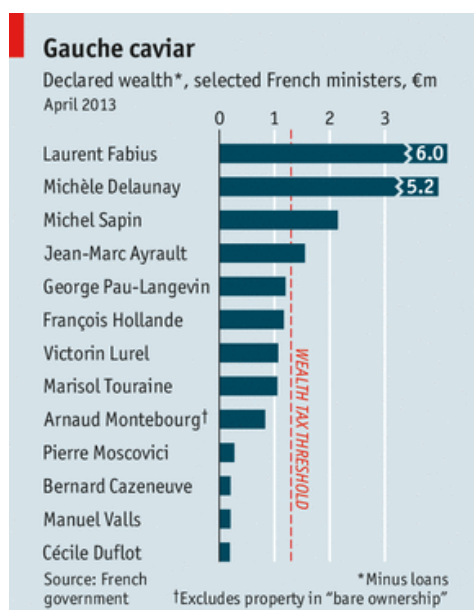
Source: McKinsey Global Institute

- Demand for housing may translate into long-term investment opportunities
- Increasing opportunities in retail banking provide incentives for portfolio diversification and stabilizing cash flows

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Investments into property have reaped significant returns for investors



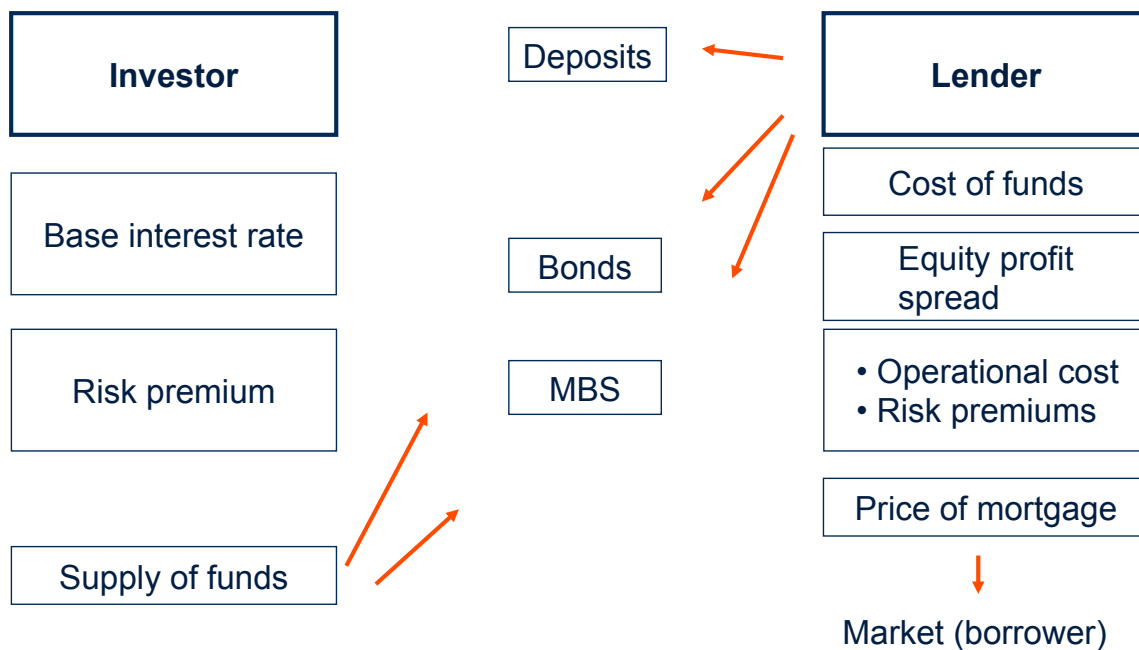
- French ministers have preferred investments in property over shares and bonds

Source: The Economist

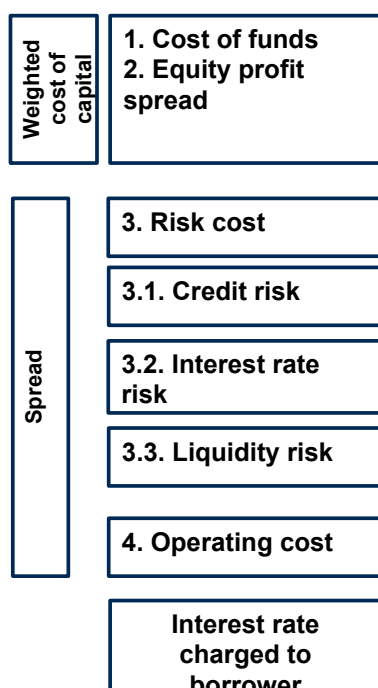
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Investors' risk preferences have significant impact on funding cost for lender



Group work: identify levers and measures to increase volume of housing finance



Example:

Lever/theme	Measures	Comments
Reduce cost of funding mortgages	Liquidity facilities	Require existing primary market

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