

Growing Housing Opportunities in Africa .

The Role of Mortgage Liquidity
Facility in Housing Finance

Agenda

- Brief background of Azania Bank Ltd.
- Azania Bank Ltd :Mortgage Financing Experience
- The role of Mortgage Liquidity facility and its impact on Azania Mortgage portfolio
- Challenges of Mortgage financing

Brief background of Azania Bank Limited

- Azania Bank Limited is the first indigenous private bank (formerly known as 1st Adili Bancorp limited) established in 1995 following the liberalization of the financial sector.
- The bank was restructured in Sept. 2000 and changed its name to Azania Bancorp Limited

- In 2004 the bank obtained full commercial license and commenced operations as a full fledged commercial bank and changed its name from Azania bancorp limited to Azania Bank limited .

Purpose and Objectives of Bank

- It is our vision to be a one stop financial centre for the small and medium sized enterprises. We are aiming at becoming a leading bank in providing banking and financial services to the small and medium sized customers.

“Azania bank to be a house-hold name for the SME’s”

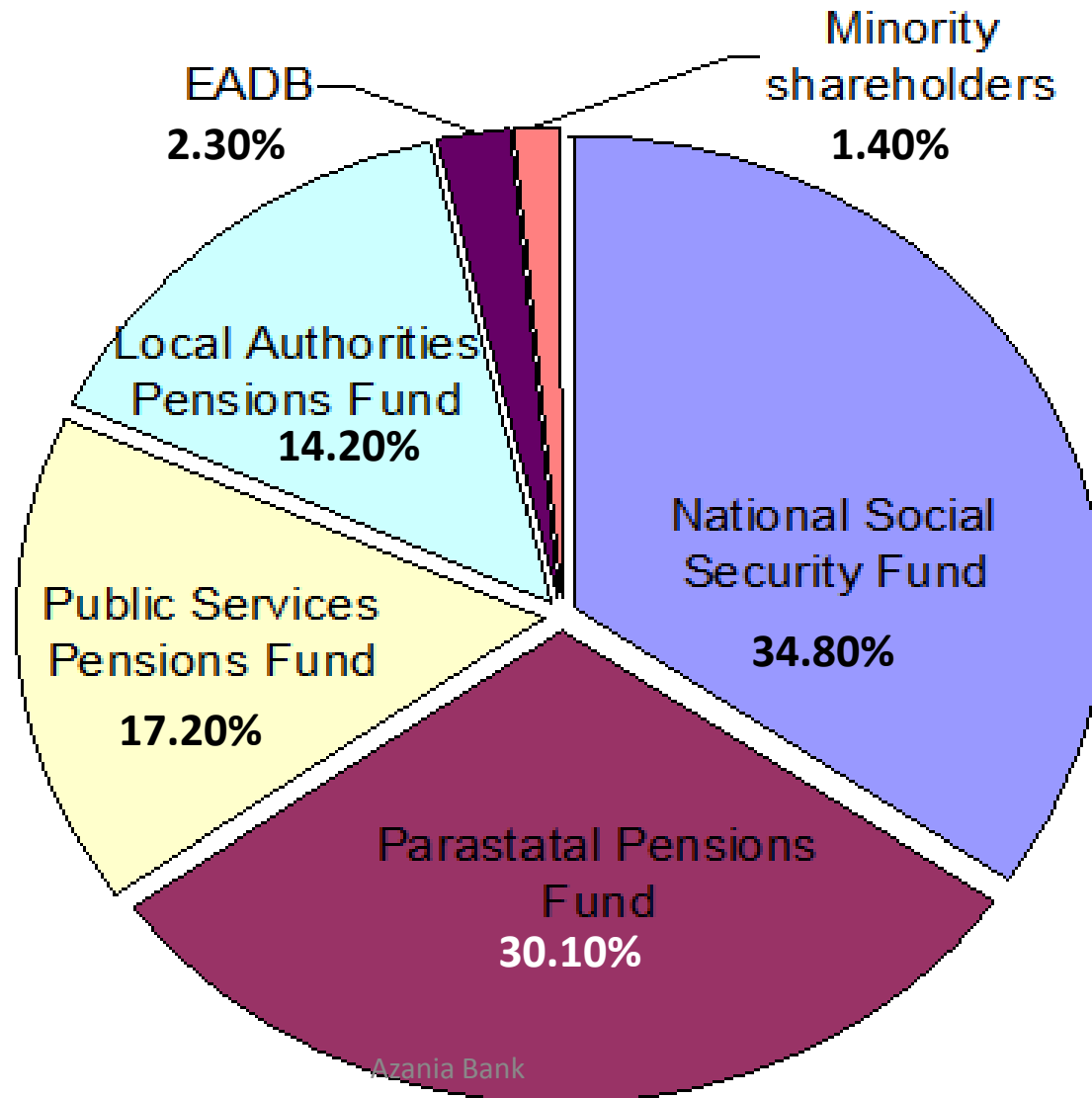
Our vision is aligned with the aspirations of our customers/partners(SME's)

- Improve the SME's livelihood both socially and economically.
- The need for the SMEs to see us that we actually want to grow with them.
- We are mobilizing resources and providing credit to maximize our value proposition but at the same time economically empower them.

We cherish and subscribe to the following values

- Innovation:
- Effective Risk Management :
- Responsiveness:
- Leadership, Commitment, Integrity, Motivation and Teamwork:
- Good Corporate Governance:

SHAREHOLDING



Azania Bank

BRANCH NETWORK

- Azania Bank Limited with its Head office at Mawasiliano Towers along Sam Nujoma road currently has a network of 11 Outlets(branches and agencies) at ; **Masdo** House along Samora Avenue, **Kariakoo** Branch along Msimbazi Street, **Tegeta** Branch along Bagamoyo Road, **Mwenge** Branch opposite Mwenge Market and **Mawasiliano** towers agency along Sam Nujoma, **Mbauda** and **Arusha city** Branch in Arusha, **Kahama** Branch in Shinyanga, **Mwaloni** and **Nkrumah** Branches in Mwanza and **Moshi** along Market Street.

Upcoming branches

Before the end of the year 2012 the bank will open branches and agencies at the following locations:

- Geita
- Lamadi
- Katoro
- Kagongwa

- The bank has a total assets of Tzs.214bn (USD equiv 134.7mil)
- The bank has a total of 230 staff
- The bank is a member of Umoja Switch consortium with over 141 ATMs in 16 Regions within Tanzania. {Membership is now 24 banks [14 live, and 10 at different levels of integration]}
- The bank is one of the shareholders of Tanzania Mortgage Refinancing Company (TMRC)

Mortgage Financing experience

- Azania Bank started offering Mortgage Loans to **qualifying applicants** for the purposes of **building, renovation and/or buying residential houses** in the year **2002**.
- The interest rates in the year 2002 for mortgage loans were 15% p.a (fixed) and the maximum repayment period was 10 years.
- Collateral for the mortgage loans are the landed properties(the subject property).

- The Bank's Mortgage Loan Portfolio as at August 2012 was **Tzs.29.42bn** (usd equiv\$18.5mil) given to **640** customers.
- The total bank's loan portfolio was **Tzs.137.4bn**(usd equiv\$86.4m)
- The total exposure to mortgage loans as a percentage of total loans was **21.4%** as at 31st August 2012.

- The bank's mortgage loan financing is for both residential and commercial properties.
- 60% of the total mortgage loan outstanding is for residential properties and the rest is for commercial properties.
- The current maximum tenor is **15 years** and the current interest rate is **18% p.a (fixed)**

Bank participation in mortgage projects

□ Kiseke Low cost housing:

The bank has financed a total of **Tzs.8.9bn** (USD equiv. \$5.6mil) to purchasers of the houses in the Kiseke low cost housing project under PPF in Mwanza region.

□Mhonzwe project under Mwanza City Council

The bank has financed Tzs.540mil (USD equiv.\$340 thousand) for financing re settlement of low-income households at the lake side informal settlement and resettle them at well serviced, well planned, with titled plots and re-plan and sale of the lake front property to both low, medium, high income end users for investment in housing shopping malls and hotels.

□ **TAFSUS**; the bank has financed a total **Tzs.65mil** (USD equiv \$41 thousand) towards several projects for the upgrading of underserved settlements in Temeke, Kinondoni and Ilala municipalities through the Tanzania Financial Services for Underserved Settlement program.

□ National Housing Corporation(NHC);
The bank has financed a total of **Tzs. 664 mil**(USD equiv \$418 thousand) towards buyers of several NHC houses.

Long Term Capital – the utilisation of TMRC

- The bank has re-financed part of its mortgage facilities through **TMRC** and as at September 2012 the position was:
- Amount 1st refinanced **Tzs.2.5bn** (usd equiv\$1.6mil) at the rate **8.84%**(fixed)
- The facility is for a period of **5 years** (from November 2011)whereby interest is paid Quarterly and Principal is going to be paid at Maturity.
- The facility refinances 59 bank mortgage facilities/customers.

- 2nd refinancing was **Tzs .1.7bn** (usd equiv \$1.1mil)at the rate of **15.61%** for a period of **3 years**.
- The facility refinances 38 mortgage customers

- The total mortgage refinanced is **14%** of the total mortgage loans. This is only **24%** of all residential mortgages.
- The other residential mortgages have not been financed due to:
 - ✓ Mortgage registration process has not been finalized
 - ✓ Mortgage Loan amount exceeds maximum loan allowable for refinancing
 - ✓ The loan repayment of the mortgage loan is not regular for the past six month.

HOW HAS TMRC IMPROVED OUR CAPACITY AND PERFORMANCE AS A BANK TO OPERATE IN THE HOUSING MARKET

- Improved the bank's Liquidity: The bank was able to borrow from TMRC at a reasonable rate and for a longer period, which has improved liquidity of the bank.
- Performance stability: TMRC provides funding for a longer term which reduces the asset/liability mismatch; the mortgage facilities are for 15 years and the other bank deposits are for an average max. period of 1 year.
- Mortgage Portfolio Growth: The bank is able to confidently grow its mortgage portfolio with the availability of the opportunity to refinance through TMRC.

CHALLENGES

- Interest rates: TMRC facility rate is composed of; average 6 months Treasury bill rate+ maturity spread+ risk premium +TMRC margin. When the 6 months Treasury bill rate is high the refinancing rate also increases. If the situation is persistent the banks will also increase their rates which will greatly impact affordability of the mortgage facilities to the borrowers.

- Efficient Registration process: the registration of legal mortgages especially for the projects where subdivision has to be done takes very long time. TMRC finances only registered mortgages.
- low disposable income
- High structural risks associated with poor contract enforcement mechanism, low capacity in underwriting, high cost of managing defaults(absence of credit reference bureaux)

- Inefficiencies in the land delivery and administration system
- Absence of appropriate Incentives that can promote savings for housing
- VAT on houses sold by institutional developers renders these houses to be more expensive and unaffordable

- Addressing both macro and Micro economics fundamentals to have stable interest rate environment and preferably should be at a single digit.
- TMRC should also structure re financing for other type of mortgages like NHC projects facilities whereby the customer buys the houses before the houses are finished.

- Alternative use of other instruments to be used as security by TMRC in extending loans to banks interested in creating Mortgages stock e.g bonds and Treasury bills
- Coordinated infrastructure development by utility providers in areas where housing estates are being developed
- Credit enhancement schemes targeting the lower end of the market.

- Tax incentive schemes to developers on capital equipment to stimulate production of housing stocks addressing the supply deficiencies
- Appropriate regulatory framework for institutions providing housing finance-addressing issues on reserve requirements and appropriate provisioning policies

Thank You