



**International
Finance Corporation**
World Bank Group

What Does IFC Look for In Housing Investments?

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CONTENTS

- A. Where and why does IFC Invest in Housing & Housing Finance?
- B. Some Lessons Learned
- C. IFC Deal Acceptance Criteria

IFC has invested over USD 3 billion in Housing Finance in over 40 countries since 2000

Sub-Saharan Africa

- South Africa Home Loans (equity, debt, South Africa)
- Ghana Home Loans (equity, debt, Ghana)
- KCB Rwanda (debt, Rwanda)

South Asia

- Housing Development Finance Corp. (India, equity)
- Dewan Housing Finance Ltd. (India, equity)

East Asia

- CIMB Niaga (Indonesia, debt)

Latin America & the Caribbean

- Davivienda (equity, debt, Colombia, first equity stake in 1973)
- La Hipotecaria (equity, debt, Panama, El Salvador)
- Titularizadora Colombiana (Colombia)
- Urbi, Vinte, Homex (Mexico, builders)

Middle East & North Africa

- Saudi Home Loans (equity, Saudi Arabia)
- Palestine Mortgage & Housing Corp. (equity, Palestine)

Eastern Europe

- Delta Credit (equity, debt, Russia)
- Vneshtorgbank (bond issues, Russia)

IFC Housing Finance Leadership Expertise

Guidance to governments: In cooperation with the World Bank, IFC advises governments on legal and regulatory changes that enable increased housing finance.

Investment and Advisory Services: IFC invests in both local banks and specialized mortgage finance companies and provides advisory services to help them expand. IFC has deepened the market for mortgage-backed securities in Colombia, Mexico, Saudi Arabia, South Africa, Russia, and other countries.

Global leadership: With the World Bank, IFC fosters knowledge sharing including the Hofinet web portal in partnership with the Wharton School of the University of Pennsylvania and the Global Housing Finance Conference, which brings together experts from government, industry and academia to highlight key issues in the sector.

IFC is active in a range of housing finance products:

- Primary mortgage markets, securitization, mortgage insurance, Islamic finance
- Advisory Services, including Global Mortgage Toolkit, Housing Microfinance Toolkit, Residential Energy Efficiency

Why does IFC Invest in Housing Construction & Finance?

The value added of the housing sector reaches 20% or more of GDP

- Job creation - construction, materials, finance, engineering...
- Housing and residential finance enable other sectors
 - Capital goods: Furniture, Equipment, etc.
 - Services: Real estate services, financial services, banking, etc.
- 20-30% of fixed capital formation and similar share of total credit consumption
- Housing finance and residential construction are profitable

Shelter is one of the greatest needs in the developing world

- About 45% of Sub-Saharan African families live in inadequate shelters
- Dirt floors, inadequate sanitation, absence of running water all contribute to respiratory and other diseases
- Households that lack legal title to their informally built homes invest less in the homes themselves, but also less in education

LESSONS LEARNED

- **Housing finance is a complex and long term business.** Prudent growth is far better than lower standards in pursuit of aggressive growth.
- **Enabling environment has to be ready** for long term formal housing finance. Where it is not ready, start with advisory, build engagement over time
- **Local currency lending solutions** are the lowest risk for all involved - where inflation is under control
- **First things first** - Healthy primary lending before bond markets
- **Too much of a good thing can be bad** - for example, exclusive reliance on wholesale funding
- **Underwriting and mortgage eligibility criteria** should be based on international best practices and closely adhered to - even when counter to local market practice or rapid growth
- **NBFI focusing on housing finance must be carefully evaluated.** These institutions are a great way to get started (focus) but in the long run can be vulnerable unless they have multiple funding sources or support from a strong partner or regulatory institution

IFC Investments Contribute to Two Bottom Lines

- Development Impact

- How many moderate or low cost houses will be built?
- How many jobs will be created?
- How many laws, regulations, regulatory processes, behaviors will be changed?
- How are environmental and social impacts managed or mitigated?

- Financial sustainability

- Profitable projects stand on their own to contribute to GDP growth, job growth, economic development

Macro Conditions for Housing Investment

Legal & Regulatory

- Title & lien registration & enforcement
- Anglophone, Francophone

Supply Side Capabilities

- Presence of credible developers
- Physical Infrastructure

Funding

- Long term
- Local currency

Demand

- Adequate income vs. shortages of adequate quality units

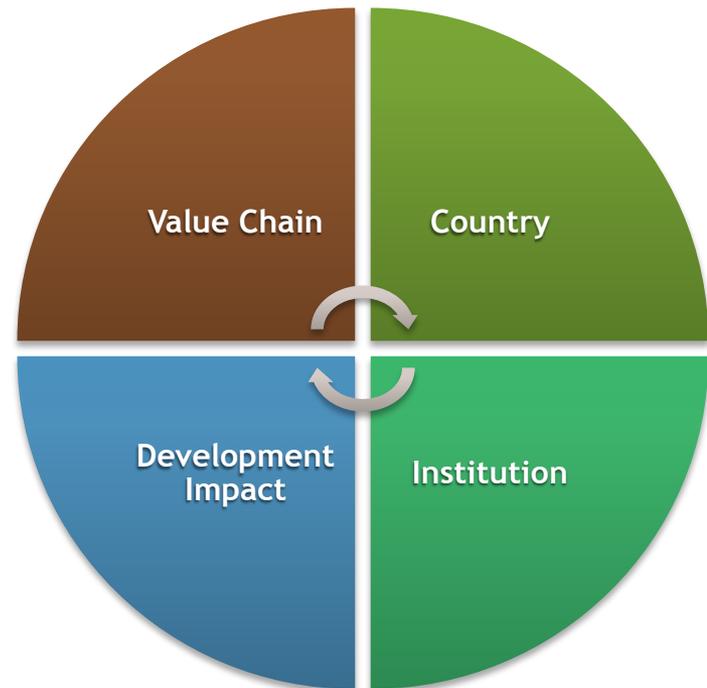
Macroeconomic & Political Stability

- Inflation moderate/low but stable
- Subsidies crowding out private sector

Even the most favorable countries in Africa are constrained by issues in four key areas that are critical to the success of formal housing finance

INVESTMENT DEAL ACCEPTANCE CRITERIA

- Focus on countries with...
 - Relatively stable macroeconomic environment outlook; positive outlook on employment
 - Government acts as enabler, not competitor
- Focus on primary markets
 - Primary lenders first, bond markets only where there is compelling demand and EE
 - New products among primary lenders for mortgages & for housing microfinance
- Focus on institutions that...
 - Have a coherent vision and credible business plan
 - Have credible sponsors
 - Have ability to take deposits or other stable funding source
 - Have 3 years of audited financials and a track record of profitability



Direct Funding Products

Straight Senior Loan

- IFC finances projects and companies through straight senior loans
- Loans are for IFC's own account
- The maturities of IFC loans generally range between seven and 12 years at origination

Collateralized Loan

- Secured loans are made to commercial banks, financial institutions, specialized mortgage origination companies and construction developers
- Security may include land and construction, seasoned mortgages, newly-produced mortgages and external guarantees

Quasi-Equity (Convertibles)

- IFC offers quasi-equity products with both debt and equity characteristics.
- IFC provides convertible debt and subordinated loan investments, which impose a fixed repayment schedule.
- It also offers preferred stock and income note investments, which require a less rigid repayment schedules.

Advisory Services Products

- Global Mortgage Toolkit
 - Mortgage lending strategy, best practice for business processes, product design, risk management
- Housing Microfinance (HMF) Toolkit
 - HMF lending strategy, best practice for business processes, product design, risk management
- Housing finance Enabling Environment
 - As a function of need, in collaboration with World Bank, other IFIs, NGOs, bilateral donors
- Advisory projects are co-funded between IFC and the client, subject to availability of funds
 - IFC funds advisory work with its own resources, from bi-lateral donors, from NGOs
 - We always ask that the client pay some portion of the cost

The Housing Finance Team

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