

The Role of a Mortgage Liquidity Facility in Housing The Case of Tanzania Mortgage Refinance Company

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- ▶ A Mortgage Liquidity Facility (MLF) is a specialized financial institution designed to support long term lending activities by Primary Mortgage Lenders (PML)

Examples of MLF's around the world:

- ▶ Tanzania Mortgage Refinance Company (TMRC)
- ▶ Egypt – Egyptian Mortgage Refinance Company (EMRC)
- ▶ France – Caisse De Refinancement De Habitat (CRB)
- ▶ Indonesia – PT Sarana Multgriya Finansial (SMF)
- ▶ Malaysia – Cagamas Berhad
- ▶ USA – Federal Home Loans Bank (FHLB)
- ▶ Mongolia – Mongolian Mortgage Corporation (MMC)
- ▶ Armenia – Armenian Mortgage Corporation (AMC)
- ▶ Jordan – Jordan Mortgage Refinance Company (JMRC)



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Mortgage Liquidity Facilities

A Mortgage Liquidity Facility is not:

...a State Housing Bank

...a subsidy vehicle

...a securitization conduit (eg. Fannie Mae)

...a risk taker (interest rate or credit risk)

...a mortgage lender

A broader initiative being administered by the Bank of Tanzania:

PROJECT OBJECTIVE

To improve access to long-term housing mortgage finance, progressively mobilized through the domestic capital market

To develop access to medium-term housing micro-finance

To expand the supply of affordable housing by private developers

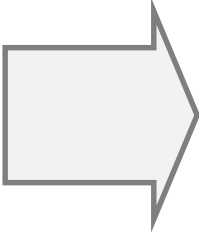
PROJECT COMPONENTS



1 - Development of the Mortgage Market



2 - Development of Housing Microfinance



3 - Expansion of affordable housing supply



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Tanzania Mortgage Refinance Company Limited (TMRC)

- ▶ Tanzania Mortgage Refinance Company Limited (TMRC) is a Mortgage Liquidity Facility (MLF) created as a **private sector institution** owned by the banks with sole purpose of supporting banks to do mortgage lending by refinancing banks' mortgage portfolios
- ▶ TMRC was established with support from the **Government of Tanzania** and the **World Bank** with the aim of supporting member banks to extend long-term mortgage loans to the public through provision of long-term funds.
- ▶ TMRC is a specialized financial Institution that provides long-term funding to financial institutions for the purposes of **mortgage lending**.
- ▶ TMRC is neither taking deposits nor lending directly to individuals.



TMRC Member Banks



- ▶ TMRC is licensed by Bank of Tanzania (BOT) as a non-deposit taking financial institution for the purpose of conducting its business
- ▶ In addition, TMRC will also be licensed by the Capital Markets and Securities Authority (CMSA) for the purpose of bond issuance
 - The Charter of TMRC reflects its unique role in being a single purpose vehicle
 - It restricts the Company from undertaking any other activities (such as taking deposits, commercial loan refinancing or lending directly) apart from the ones for which the Company is established to do

- Provision of secure long term funding at attractive rates to member banks to continue lending to their clients
- Lowering the cost of funds, which can lead to a lowering of mortgage rates, thereby improving affordability and extending the range of potential borrowers
- Facilitating member banks to extend the mortgage maturity to be in line with normal mortgage products
- Contribute to the growth of Tanzanian capital markets through the issuance of TMRC bonds to source funds for long term lending to member banks
- Assist in the standardization of mortgage practice in Tanzania through specialized training to member banks on the origination of mortgages
- Facilitating the entry of new mortgage lenders in the market due to the existence of MLF which guarantee the funding of mortgage portfolios



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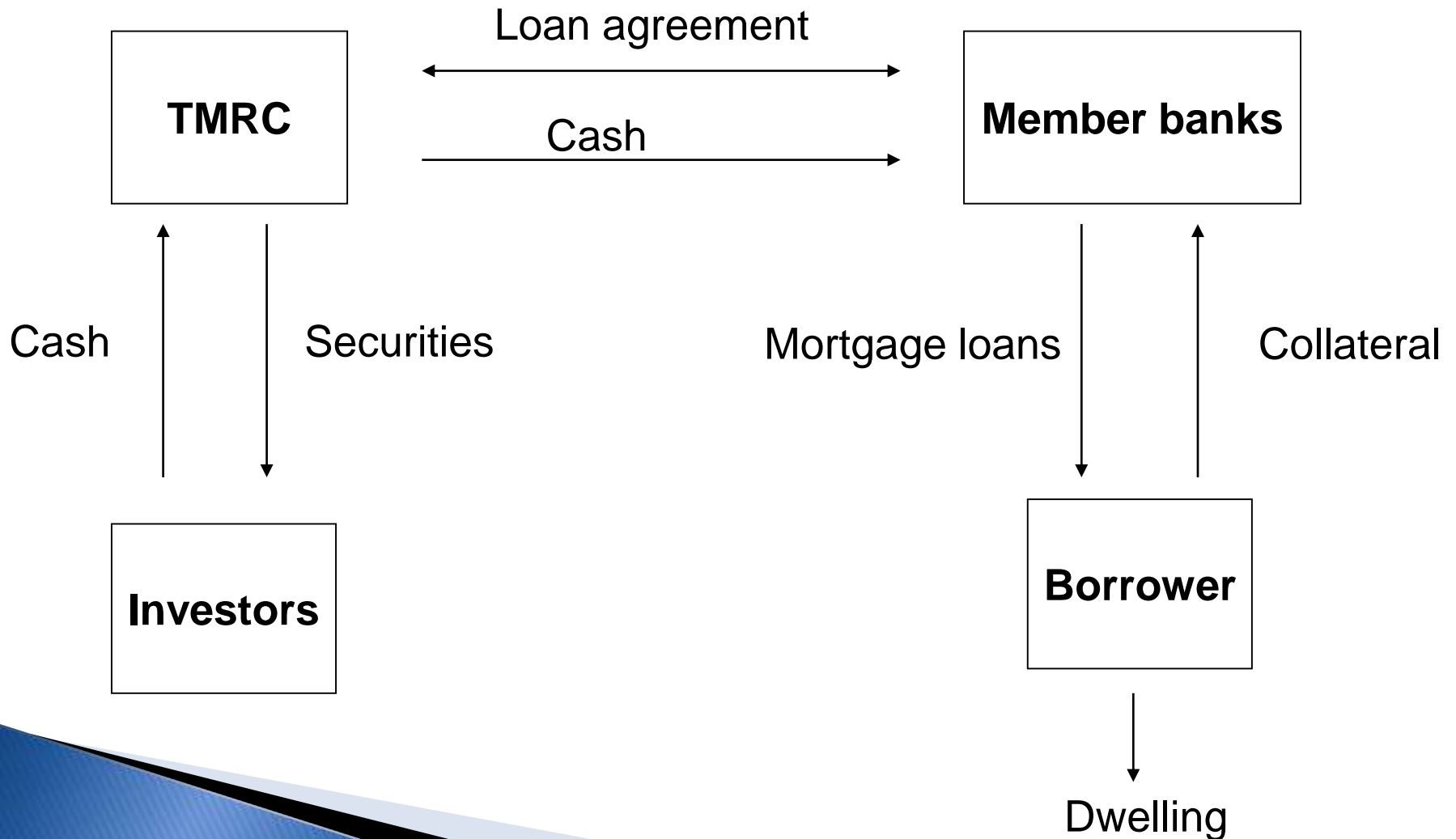
Key benefits

- ▶ Allows for greater competition in the mortgage market
- ▶ Key ingredient in growing mortgage market in an underserved economy
- ▶ Acts as a force for standardization in the market, pushing Member banks to adhere to best practice
- ▶ Acts as an intermediate step on the path to a full secondary mortgage market
- ▶ Acts to deepen the financial market more generally by providing a long term investment to institutions with long term liabilities
- ▶ Can be a tool for delivering policy objectives such as the promotion of affordable housing or the promotion of local currency lending



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TMRC funding mechanism?





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Mortgage Pricing

Bank of
Tanzania

5 Year loan
at 10.0%

Corporate Bond
Market

5 Year Bond
at 10.00%

TMRC

5 Year loan at 11.50%

Mortgage
Lenders





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Tanzania mortgage market pre-TMRC

- ▶ There were only three (3) banks engaging in mortgage lending:
 - ▶ Azania Bank Limited
 - ▶ Commercial Bank of Africa (CBA)
 - ▶ Stanbic Bank
- ▶ Mortgage loans tenors ranged from 5 – 10 years
- ▶ Mortgage loans interest rates ranged from 20% - 22%

TMRC impact to the market

	Stanbic	Azania	CBA	Barclays	NMB	CRDB	NIC Bank	DCB	Exim	KCB	BOA	BancABC	Bank of Baroda	ICB	NBC (Proposed)
Repayment Period	20 years	15 years	20 years	20 years	15 years	20 years	20 years	15 years	15 years	20 years	15 years	20 years			20 years
Minimum Loan Amount	TZS. 30m	Depend on loan affordability	Depend on loan affordability	TZS. 30m	TZS 20m		Depends on ability to repay		TZS 30m	TZS 40m	TZS 40m/USD 40K	TZS 20m/USD 12K			30m
Maximum Loan Amount	TZS. 360m	TZS. 350m	TZS. 360m	TZS. 500m	TZS 500m	TZS 500m	Depends on ability to repay	Depends on ability to repay	TZS 350m	Depends on ability to repay	Depends on ability to repay	TZS 350m/USD 200K			TZS. 350m
Interest Rate	19% variable	18% variable	18% variable	19% variable	19% variable	18% + 1% insurance	19%-TZS & 9%-USD	18%	1 year T-bill rate +400bps subject to a min. of 15% OR 20% fixed in Year 1 and variable thereafter	0.18	18%-TZS and 10% - USD	Variable linked to the bank's prime rate minus 3%			18% variable
Administration Fee	0.50%	N/A	0.50%	0.50%	1.50%		3% (1% -application fee paid upfront +2% appraisal fees)		2%	2% (0.5% processing fee + 1.5% facility fee)	2%	2% (1.5% Documentation fee + 0.5% arrangement fee)			0.50%
Client segment	Salaried/ commercial use	Salaried/ commercial use	Salaried/ commercial use	Salaried	Salaried/Businessmen/Professionals	Salaried/Businessmen/Professionals	Employed & self employed individuals	Salaried individuals /Businessmen	Salaried individuals /Businessmen	Salaried individuals /Businessmen	Salaried individuals /Businessmen	Salaried individuals/Businessmen			Salaried – medium and high income earners
LTV	75% - 85%	85%	80%	70% - 80%	80%	80%	80%-employed & 70%-self employed	80%	80%	80%	80%	80%			80%
DSR	45%	66%	50%	45%		40%	50%		50%	50%	50%				45%
Number of Loans June 2013	104	678	185	60	14		1	356*	10	14	29	18			N/A
Total Book size (June 2013 in TZS)	31.7 Billion	34.7 Billion	20.41 Billion	6.58 Billion	2.41 Billion		257 Million	3.28 Billion	2.48 Billion	2.3 Billion	4.5 Billion	3.2 Billion			N/A
Mortgage market share	23.37%	25.63%	15.07%	4.86%	2%		0.19%	2.42%	1.83%	1.72%	3.35%	2.38%			

TMRC impact to the market

MORTGAGE MARKET DATA		31st December 2011			30th June 2013		
Sno	Institution	No. of Accounts	Mortgage Debt outstanding	Mortgage Debt/GDP ratio	No. of Accounts	Mortgage Debt outstanding	Mortgage Debt/GDP ratio
1	AZANIA BANK LIMITED	261	\$ 12,014,751.42	0.06%	678	\$ 21,706,609.40	0.08%
2	STANBIC BANK (T) LTD	59	\$ 12,547,451.39	0.06%	104	\$ 19,793,759.98	0.07%
3	COMMERCIAL BANK OF AFRICA (T) LIMITED	119	\$ 12,457,614.18	0.06%	185	\$ 12,758,075.12	0.05%
4	NIC BANK TANZANIA LIMITED	12	\$ 4,310,593.15	0.02%	1	\$ 160,671.66	0.02%
5	EFC TANZANIA M.F.C LIMITED				443	\$ 4,008,154.54	0.01%
6	I & M BANK TANZANIA LIMITED	22	\$ 1,478,114.66	0.01%	23	\$ 2,815,758.57	0.01%
7	BARCLAYS BANK (T) LIMITED	40	\$ 2,231,832.77	0.01%	60	\$ 4,117,257.98	0.01%
8	BANK OF AFRICA TANZANIA LIMITED				29	\$ 2,836,097.68	0.01%
9	DCB COMMERCIAL BANK PLC	42	\$ 198,581.25	0.00%	356	\$ 2,051,009.33	0.01%
10	CITIBANK TANZANIA LIMITED	11	\$ 1,370,818.67	0.01%	13	\$ 1,476,955.34	0.01%
11	NATIONAL MICROFINANCE BANK (T) PLC.	8	\$ 842,407.39	0.00%	14	\$ 1,506,339.78	0.01%
12	KCB BANK TANZANIA LIMITED	3	\$ 289,932.18	0.00%	14	\$ 1,459,888.41	0.01%
13	AKIBA COMMERCIAL BANK LTD				247	\$ 435,356.41	0.00%
14	AFRICAN BANKING CORPORATION (T) LTD				18	\$ 2,011,568.67	0.01%
15	EXIM BANK TANZANIA LIMITED	1	\$ 156,963.54	0.00%	10	\$ 1,550,922.07	0.01%
16	FIRST NATIONAL BANK TANZANIA LIMITED	1	\$ 53,125.00	0.00%	2	\$ 85,253.03	0.00%
	Total	579	\$ 47,952,185.61	0.23%	2,197	\$ 78,773,677.96	0.32%
	Average Loan Size		\$ 82,818.97			\$ 35,855.11	

- High property prices
- Introduction of VAT on sale of properties
- Non preferential risk weight to mortgage assets
- Lack of major property developers
- High cost of transfer & compliance
- Under developed debt market

- Issuance of TMRC bonds
- Establishment of mortgage information databank
- Stimulating establishment of mortgage finance institutions
- Establishment of mortgage insurance products
- Encouraging banks to offer fixed rate mortgage products
- Full securitization/ establishment of FULL secondary mortgage market



Thanks for your attention!