Basel III AND ITS IMPACT ON HOUSING FINANCE
AUHF CONFERENCE SEPT 2013 MAURITIUS
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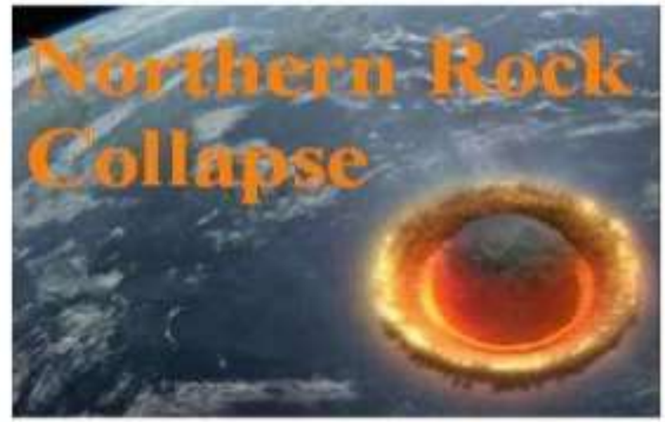
Banking Crisis 2008



Evolution of Basel Accords

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KEY BASEL III COMPONENTS

Areas	Main Basel III components
Capital ratios and targets	Capital definition Countercyclical buffers Leverage ratio Minimum capital standards Systemic risk
RWA requirements	Counterparty risk Trading book
Liquidity standards	Liquidity coverage ratio Net stable funding ratio

TIMELINE PROPOSED FOR IMPLEMENTATION OF BASEL III

Annexure3: Time lines (shading indicates transition periods)
(All dates are as of 1 January)

	2011	2012	2013	2014	2015	2016	2017	2018	As of 1 January2019
Leverage Ratio	Supervisory monitoring			Parallel run 1 Jan 2013-I Jan 2015 Disclosure Starts 1 Jan 2015				Migration to Pillar 1	
Minimum Common Equity Capital Ratio			3.5%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%
Capital Conservation Buffer						0.625 %	1.25%	1.875%	2.50%
Minimum common equity plus capital conservation buffer			3.5%	4.0%	4.5%	5.125 %	5.75%	6.375%	7.0%
Phase-in of deductions from CET1 (including amounts exceeding the limit for DTAs, MSRs and financials)				20.0%	40.0%	60.0 %	80.0%	100.0%	100.0%
Minimum Tier 1 Capital			4.5%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%
Minimum Total Capital			8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Minimum Total Capital plus conservation buffer			8.0%	8.0%	8.0%	8.625 %	9.25%	9.875%	10.5%
Capital instruments that no longer qualify as non-core Tier 1 capital or Tier 2 capital					Phased out over 10 year horizon beginning 2013				
Liquidity coverage ratio	**Observ ation period begins**				**Introduce minimum standard**				
Net stable funding ratio		**Obser vation period begins**						**Introduce minimum standard**	

IMPACT ON MORTGAGE FINANCE

BASEL III AND ECONOMIC GROWTH HYPOTHESIS

BASEL III

- BASEL III TIGHTER CAPITAL REGULATIONS

ECONOMY

- MAY ADVERSELY IMPACT ON ECONOMIC GROWTH
- AND UNEMPLOYMENT

HOUSING LOANS

- SUPPRESS DEMAND FOR MORTGAGE LOANS
- AND LEAD TO INCREASED DEFAULT RATE

ECONOMIC COST BENEFIT ANALYSIS

EXPECTED BENEFITS AS A RESULT OF REDUCED COST OF BANK CRASHES

EXPECTED COST OF TIGHTENED CAPITAL RATIOS

CHANGES IN LENDING SPREAD

NET BENEFITS AS % OF GDP

IMPACT ON AFRICAN ECONOMIES

(source :AfDB WORKING PAPER NO 139 NOV 2011)

CHANGES IN TIER1/RWA	EXPECTED BENEFITS (%)	CHANGES IN LENDING SPREADS (%)	EXPECTED COSTS (%)	NET BENEFIT (% TO GDP)
+2%	0.287	0.121	0.113	0.174
+4%	0.448	0.242	0.225	0.223
+6%	0.532	0.363	0.338	0.194
+8%	0.576	0.484	0.451	0.125
+10%	0.595	0.726	0.676	-0.081
+12%	0.602	0.968	0.901	-0.299

MAIN CONCLUSION

The expected long-term net benefit for Africa is estimated to be positive for a broad range of the Tier 1/RWA ratio.

Net benefits are found to be positive when the Tier 1/RWA is increased by up to 9 percent from current levels.

There are increasing marginal net benefits up to a Tier 1/RWA of about 26 percent, or 5 percentage points higher than current levels

(source :AfDB WORKING PAPER NO 139 NOV 2011)

AFRICA COMPARED TO ADVANCED ECONOMIES

The long term cost of BASEL III is lower in AFRICA

-5.6 BPS OF GDP AGAINST

-9.6 BPS IN ADVANCED ECONOMIES
(source : BCBS 2010)

Interest rates in Africa are generally higher and impact on investment and consumption will be marginal

(source :AfDB WORKING PAPER NO 139 NOV 2011)

BASEL III :Stability v/s Access

Presentation by Chairman AUHF to IUHF Joint Congress Vienna June 2013

While Stability is required

- Regulatory reforms critical to safety and soundness of banking system
- But puts pressure on inclusion goals
- Lending to low income earners is not SUB PRIME by definition
- Sub market specific date critical to understanding risk

Broadening Access requires appropriate Regulation

- Mortgage markets in Africa are in infancy
- Bulk of demand in entry level , lower value market
- Lending is critical to growth of sustained human settlements
- Appropriate and supportive international frameworks are necessary to enable growth in our markets

LOW PENETRATION OF MORTGAGE LOANS IN AFRICA (Source: Africa Housing Finance Yearbook 2012

COUNTRIES	HOUSING LOANS / GDP %
SEENEGAL , CENTRAL AFRICAN REPUBLIC,BURKINA FASO,TANZANIA, NIGERIA,CAMEROUN,GHANA,MALAWI, EGYPYT	< 1%
UGANDA, ZIMBABWE,ALGERIA,BURUNDI,	1-2%
RWANDA,BOTSWANA,KENYA, SEYCHELLES	2-4%
TUNISIA(12) MAURITIUS(12.2) MOROCCO(16.9) NAMIBIA(19.6)	12-20%
SOUTH AFRICA (26.4)	>20%

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Macroprudential Policy Measures - Another Regulatory response

- "Macroprudential" refers to an approach to financial regulation that fills the gap between conventional macroeconomic policy and traditional "microprudential" (or "safety and soundness") regulation of individual financial institutions (Elliott 2011).

- Excessive credit growth is central to the development of a large proportion of asset bubbles; Schularick and Taylor (2012)

- The objective is usually to dampen credit fuelled Asset bubbles through measures including LTV (loan to Value) , DTI (debt servicing to Income) RW (risk Weight) and Provisioning

Macro prudential norms by country – *(IMF: The Macroprudential Framework July 2013)*

Country	Since	LTV max	DTI	Risk Weight	Provision
Canada	July 2012	80%	44%		
China	Sept 2010	70%			
Hong Kong	June 2011	70%	40%	15% (IRB)	
India	Dec 2010	80 %		125% > INR 7.5m	+1%
Malaysia	Nov 2010	70%		100 % if LTV > 90%	
Singapore	Jan 2011	60%	35%		
N. Zealand	Oct 2013	80%			
USA	July 2013		43%	50% - first 100% -others	
EU	July 2011	80%		15%(IRB) 35%(STD)	
MRU	Under discussions				

Mortgage Portfolio Quality Improving

(Fitch RMBS Residential Mortgage briefing Jan 2013

Country	3months plus Arrears % (norm : 3%)	Mortgage Default probability %
Germany	0.5	4.1
UK prime	2.0	6.0
NL	0.9	3.8
France Retail	01-0.3	4.4
Belgium	0.2	3.2
Ireland	15.0	21
Spain	2.3	11.4
Italy	2.2	9.1
Portugal	2.6	9.9
Greece	5.1	18
Australia	0.7	3.0
USA	11.1	2.3

Final Conclusions

BASEL 111

- Expected to be positive for African economies
- Access issues need to be taken care of

Macro prudential Norms

- Regulatory response needs to be well calibrated to consider economic priorities
- eg IN USA , initial proposals to assign risk weights between 35 % to 200 % was abandoned following criticism that it would adversely impact the mortgages industry