Housing Finance in Ghana

Market Size

It is estimated that given the combined effect of the level of housing deficit from previous years and the rate of population growth, Ghana needs 1.2 million housing units by the year 2005. To achieve this target, some 133,000 new ho

HFC and Housing Market

HFC was originally conceived to operate as a secondary mortgage institution providing sustained housing finance in a two-tier housing system. Three assumptions were made under the proposal to operate a two-tier mortgage financing system in Ghana in the early 1990s:

1. That there would be strong Central Government support for HFC given the acute housing shortage in Ghana;

2. That the creation of HFC as a secondary mortgage institution would be the catalyst to jump start primary mortgage lending by banks after their re-structuring and re-capitalization under Ghana's Economic Recovery Programme; and

3. That the newly restructured banking system would be insulated from significant risk through an arrangement whereby the primary institutions would bear only 10% default risk, with Government of Ghana bearing the remaining 90%. HFC was thus to bear no default risk.

The operation of the mortgage market has turned out differently. Only one primary institution has been active in the market. Being an insurance company, mortgage origination provides it with business like mortgage protection and hazard insurance.

Three major reasons have been identified as the source of disinterest in the primary market:

1. Financial institutions supposed to operate in the primary market do not consider the commission of 15% p.a. attractive enough. This is spite of the fact that they would not invest their own funds and bear only 10% default risk.

2. High interest rates on treasury instruments (the interest rate on 91-day Government of Ghana Treasury Bills averaged 28.2% pa in 1999); and

3. Due to issues of risk and affordability, the introduction of indexed mortgages has experienced problems of acceptability by both existing and potential mortgagers.

To ensure its own survival and growth, HFC has had to operate as the only mortgage finance institution in Ghana and adopt several integrated measures. These include:

1. Taking on the additional role of mortgage origination and servicing;

2. Converting to a public listed company on the Ghana Stock Exchange in 1995 by offering 25% of its shareholding to the public. As a result, corporates hold 98% of the company's shareholding;

3. With an expanded capital base HFC has introduced conventional mortgages; and

4. The company has introduced the HFC Unit Trust to provide a facility for prospective mortgagors to save the required 20% downpayment.

HFC has provided construction finance to real estate developers who generally produce the following types of housing units:

Type FloorArea (m) (AveragePrices US$) 1-bedroom (semi-detached, expandable) 76 22,000 2-bedroom (semi-detached, non-expandable) 82 17,500 2-bedroom (semi-detached, expandable) 96 25,500 3-bedroom (semi-detached, expandable) 120 32,000 3-bedroom (semi-detached, expandable) 140 36,000

House prices in new residential estates usually include the cost of providing all necessary infrastructure (tarred roads, drainage, electricity and water supply). In the absence of subsidies (for both real estate developers and mortgages), homeowners end up bearing the full cost of any infrastructural works associated with the housing units.

Trends

At the end of 1998 the stock of HFC mortgages was valued at $26.7 million for 2,839 mortgagors:

Year Mortgagors Mortgages ($ million)

1992 163 1.9 1993 435 5.7 1994 1,259 9.9 1995 1,676 12.4 1996 2,087 16.7 1997 2,488 19.7 1998 2,839 26.7

Mortgage Products

HFC currently offers five mortgage products: Home Purchase, Home Equity, Home Improvement and Home Completion. Corporate mortgages are also available under any of the four mortgages mentioned. The company also provides a facility for mortgagors to acquire household furniture and furnishings.

Mortgage Instruments

i. Indexed Mortgages

At the company's inception the World Bank's loan of $8.0 million was supplemented by

$16.4 million from the Social Security and National Insurance Trust (SSNIT).

The Financing Agreements covering these amounts specified that mortgage loans be indexed to inflation (as measured by the Consumer Price Index) as a hedge against loss of value. The World Bank provided an additional $2 million and extended the period of the housing finance component of the Urban II Project by a further one year which expired in June 1999.

Inflation-index mortgages have outstanding balances fully indexed to inflation with interest rates ranging between 3.5% - 4.5%, depending on loan size.

HFC no longer offers inflation-indexed mortgages because the company no longer has access to indexed funds to match such mortgages. HFC, however, provides mortgages on conventional terms based on its cost of funds.

ii. Graduated Payments

This allows the borrower to pay lower initial monthly loan installments but requires annual increment in installment payments until the loan is fully amortized. Generally, borrowers have growing balances on their loan accounts due to the low initial installments. However, given the generally upward increase in disposable incomes, the annual upward adjustments in required repayments, the loans are expected to be fully amortized during their term.

Mortgage Rates

Inflation-indexed mortgages are linked to inflation, as measured by the CPI. In 1995 when inflation peaked in excess of 60%, HFC reached an agreement with its bondholders to provide a “cap and floor” on interest rates charged on its pilot scheme portfolio until the situation improved. The “cap” peaked to 38% p.a. in live with the agreement with bondholders.

Mortgage rates on conventional mortgages are currently 27.5% p.a. adjustable in line with HFC’s cost of funds.

The average yield on Government of Ghana treasury instruments in 1999, in comparison, were:

91-day Treasury Bill : 28.2% p.a. 182-day Treasury Bill : 26.5% p.a. 1-year Treasury Note : 19.7% p.a.

Legal and Regulatory Environment

The Government’s fiscal policy has no provision for subsidies for either real estate developers or homeowners.

HFC is registered under the Companies Code, 1963 (Act 179) as a Limited Liability Company.

HFC operates under a Home Mortgage Finance Law, 1993 (PNDCL 329) which facilitates foreclosures in case of defaulting loans.

In terms of Ghana’s banking law, HFC operates as a “non bank financial institution” under the Financial Institutions Non-Banking Law, 1999 (PNDCL 331).

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