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Raising Capital for Affordable Housing - examples from CEE Markets and Africa

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Outline of presentation

- Introduction: what does affordable housing mean?
- What do we need for working funding models in housing finance?
- Which are suitable funding instruments and their prerequisites?
- Perspectives from central and eastern European (CEE) and African markets

What does affordable housing mean?

Some example of different types of housing....

Property in Ghana, semi detached (US\$25,000 per side)



Property in Madagascar



Property in Tanzania



Conclusion: what does affordable housing mean?

Affordable versus bankable housing:

- Affordable housing might be not bankable
 - Individual might not be able offer his house as security
- Bankable is typically affordable
 - Typically, lender is likely to accept house as security for loan

What do we need for working funding models in housing finance? (I)

- Borrower
 - Affordable, reliable and bankable
- Lender
 - Risk management, funding and security
- Government
 - Access to housing and access to finance

What do we need for working funding models in housing finance? (II)

- The borrower's perspective?
 - Which product serve best my needs?
 - Where can I receive advice?
- From the lender's perspective?
 - How good is the security offered?
 - Which funding is available (cost, term, etc.)?
 - Which products do I need to offer to serve my customers?
- From the government's perspective
 - Which regulatory and institutional framework is required to allow for competitive and transparent mortgage market?
 - Which other measures may be required to improve access to housing?

Roadmap to infrastructure of well-functioning housing sector

Creating the enabling environment

- Economic stability
- Legal framework
- Institutional set up
- Property market
- Banking sector
- Housing policy

Initiating the primary market

- Lending standards
- Insurance services
- Products and services
- Access to long term funds

Funding of mortgages through capital markets

- Legal, accounting, tax framework
- Infrastructure
- Originator preparedness
- Investors

Which are suitable funding instruments, including their risks involved?

Refinancing of mortgage loans - overview

- Deposits
- Contractual savings schemes for housing (CSSH)
- Covered mortgage bonds
- Mortgage backed securities (MBS)

Deposits

Bank A

Mortgage loans

Deposits

Equity

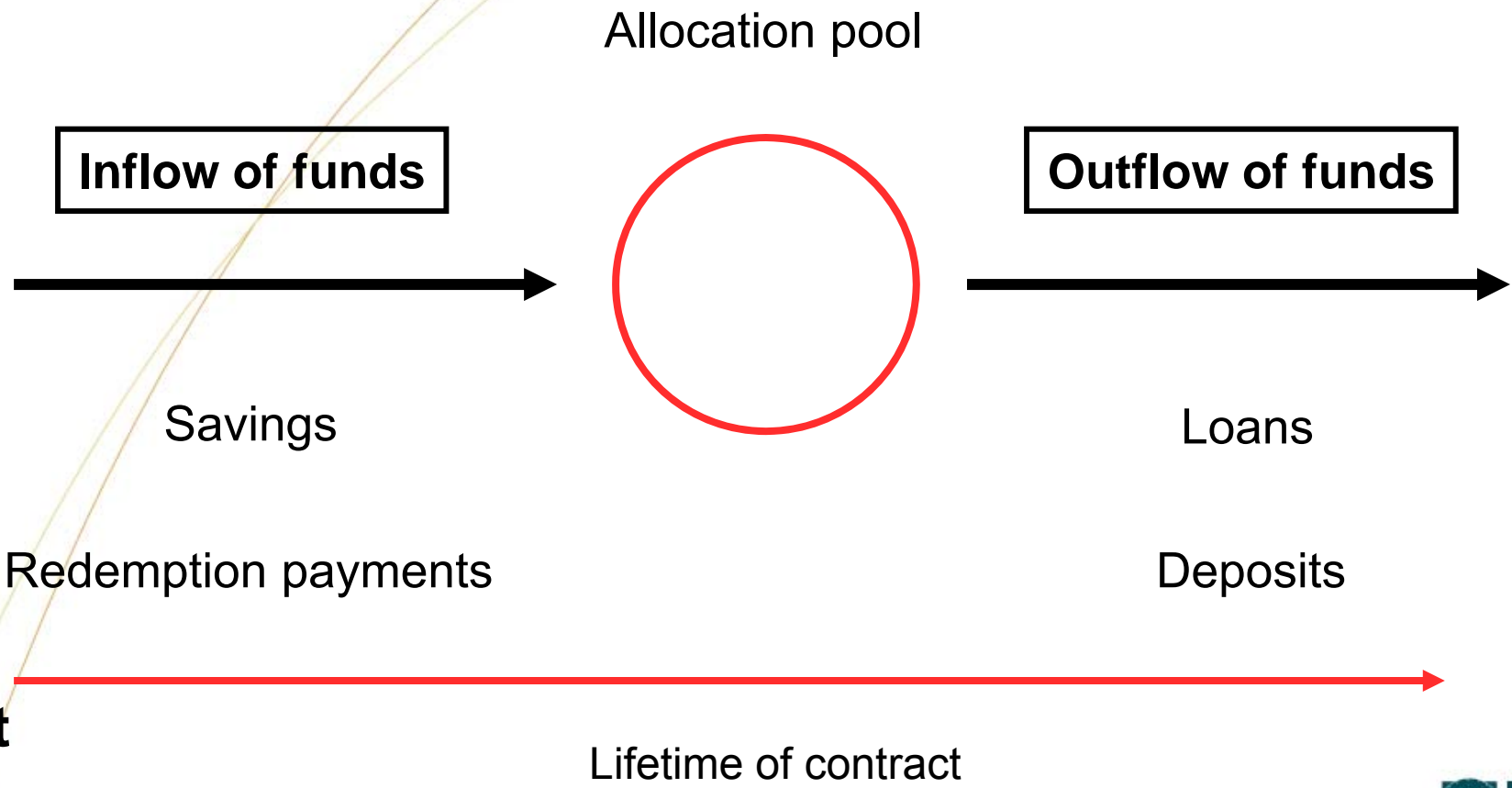


Savers

Prerequisites for Deposits

- Common funding instrument in both developed and emerging markets
- Short term deposits to refinance long-term loans expose lender to interest and liquidity risks
- Stable financial sector
- Saver can rely on repayment of deposits

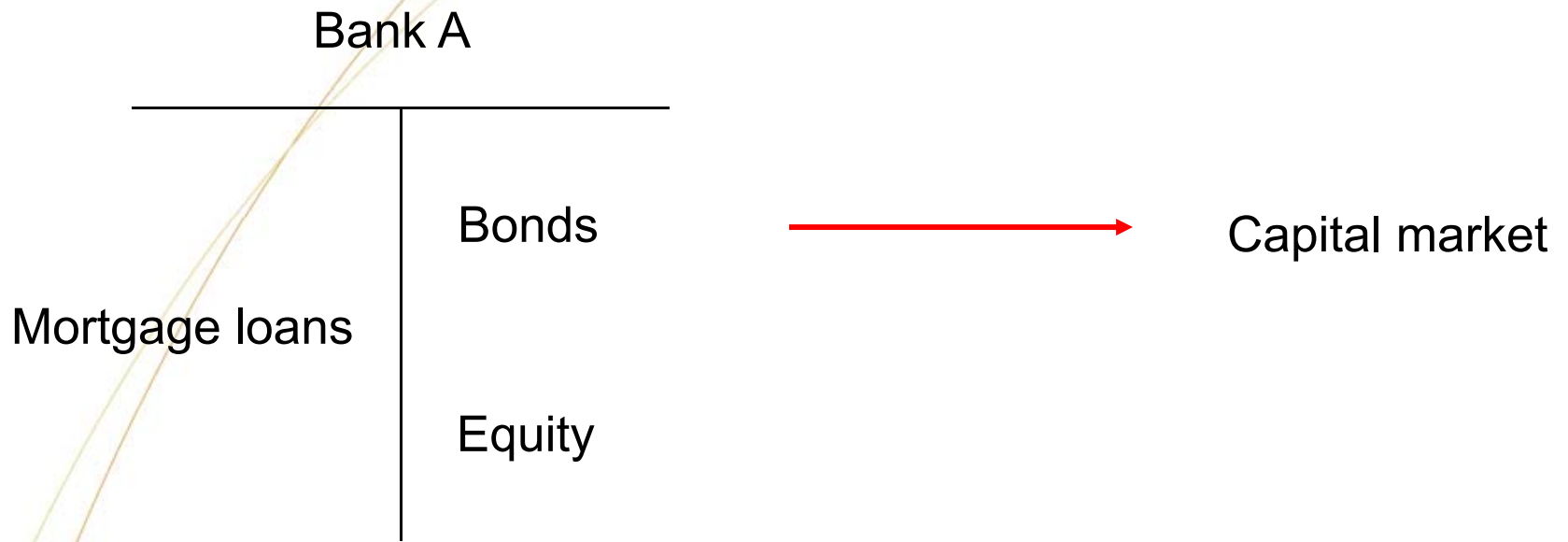
Mechanics of contractual savings schemes for housing



Prerequisites for introduction of CSSH

- Specific regulation
- Specific supervision requirements
- Often in form of a specialized institution
- Savings bonus
- Requirements in risk management and marketing

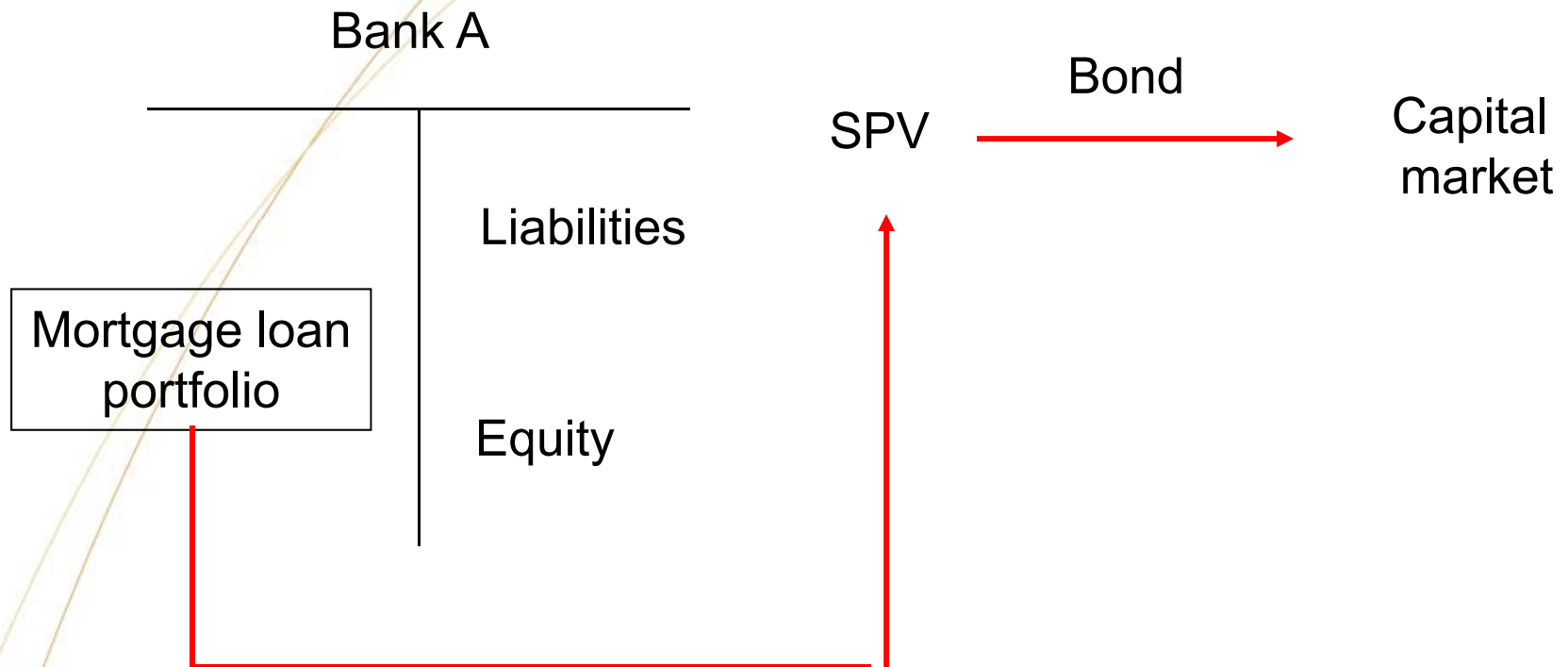
Covered mortgage bonds



Prerequisites for covered mortgage bonds

- Specific regulation
- Sometimes specialized institutions, often license
- Supervisor of the cover pool
 - Congruence of maturities
 - Maximum LTV ratios
 - Special protection in case of bankruptcy of lender

Mortgage backed securities (true sale)



Prerequisites for MBS transactions

- Legal and tax framework
- Rating agency
- Originator preparedness (standardization of mortgage lending procedures and products)
-



Mortgage market development in central and eastern European countries (CEE)

CEE – general market characteristics

- Higher growth rates than in western Europe during last decade
- Single digit inflation rates, but now on rise again
- Proximity to European Union has had huge impact on development (economic, institutional, social)
- Level of progress varies due to different start of transition process
 - New member states
 - Balkans and Russia, Bulgaria and Romania

CEE – banking sector and mortgage activities (I)

- Some countries still face uncertainties as regards ownership rights (e.g. Serbia, Kosovo)
- Gap in supply of housing
- Housing affordability still restrained
- Dominance of foreign banks (especially Austrian and Italian banks)
- Range of products more or less similar to those in western Europe

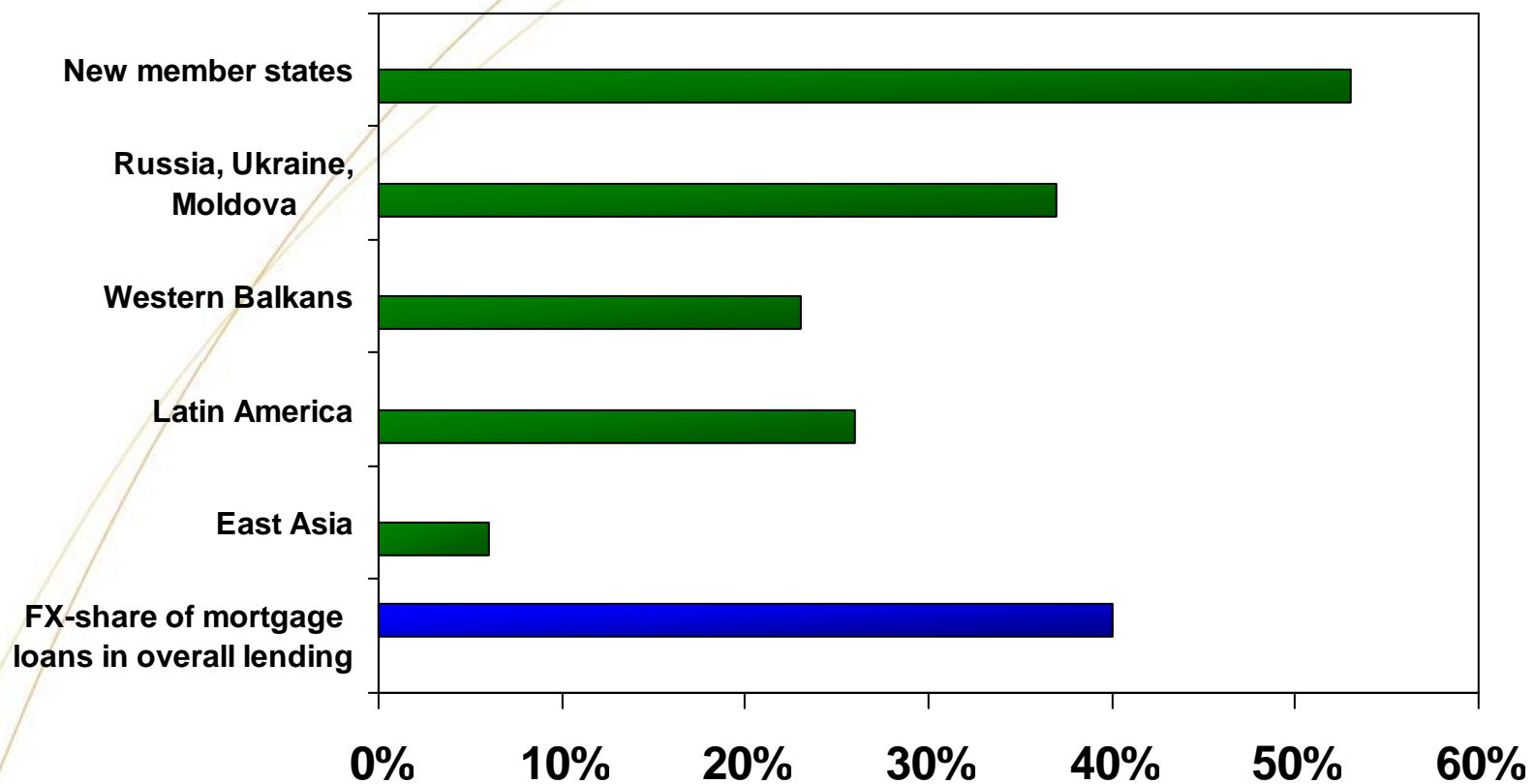
CEE – banking sector and mortgage activities (II)

- But: high share of loans in foreign currency (EUR, CHF)
- Range of funding mechanisms
 - Deposits
 - Contractual savings schemes for housing (CSSH)
 - Interbank credit lines
 - Covered mortgage bonds
 - Securitization

CEE – likely effects of global credit crunch

- Liquidity risk
 - Dependence on financing from foreign interbank markets
 - Severe effects expected for countries with high exposure to foreign currency (e.g. Kazakhstan, the Baltics)
- Repercussions on credit quality?
 - The high share of FX-loans is worrying
 - For households: if domestic currency depreciates, credit risk is likely to rise
 - For lenders: is funding still available

Illustration of FX-exposure of CEE countries





Mortgage market development in Sub-Saharan African countries (SSA)*

* Except South Africa and Zimbabwe if not otherwise stated

SSA – general market characteristics

- During last 3 to 5 years, SSA experiences growth rates of 5 – 6% on average
- Inflation rates have decreased (although now pressure from rising oil and food prices)
- Fragmented markets (48 countries)
- Level of development differs

SSA – banking sector and mortgage activities (I)

- Market penetration of lenders is low
- Influence of foreign banks difficult to assess
- Funding in domestic market prevails
- Low branch density and costly banking services
- Inadequate legal systems and weak institutional framework
- Poorly functioning property markets to ensure housing supply

SSA – banking sector and mortgage activities (II)

- Urbanisation requires huge investments – informal housing prevails
- Offer of housing loans is limited
- Restricted access to long-term funds → mainly short term deposits
- Demand for housing microfinance?

Likely effects of global credit crunch

- Repercussions on credit quality
 - LTVs are low
 - Mortgage loans mainly to upper middle and higher income groups
 - Lending mainly in domestic currency
- Resilience to be tested
 - Commodity prices have fallen
 - Flow of remittances may dwindle

Importance of credit crunch for financing affordable housing

- Is securitization the culprit?
- It is necessary to promote sound lending standards (e.g. IFC Mortgage Toolkit)
- Loans with higher down payment are preferred
- Importance of housing microfinance
- Consumer education is key
- Lessons from mortgage markets in western Europe
 - Flexible mortgage systems more prone to correction
 - To date, covered mortgage bonds have suffered less



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