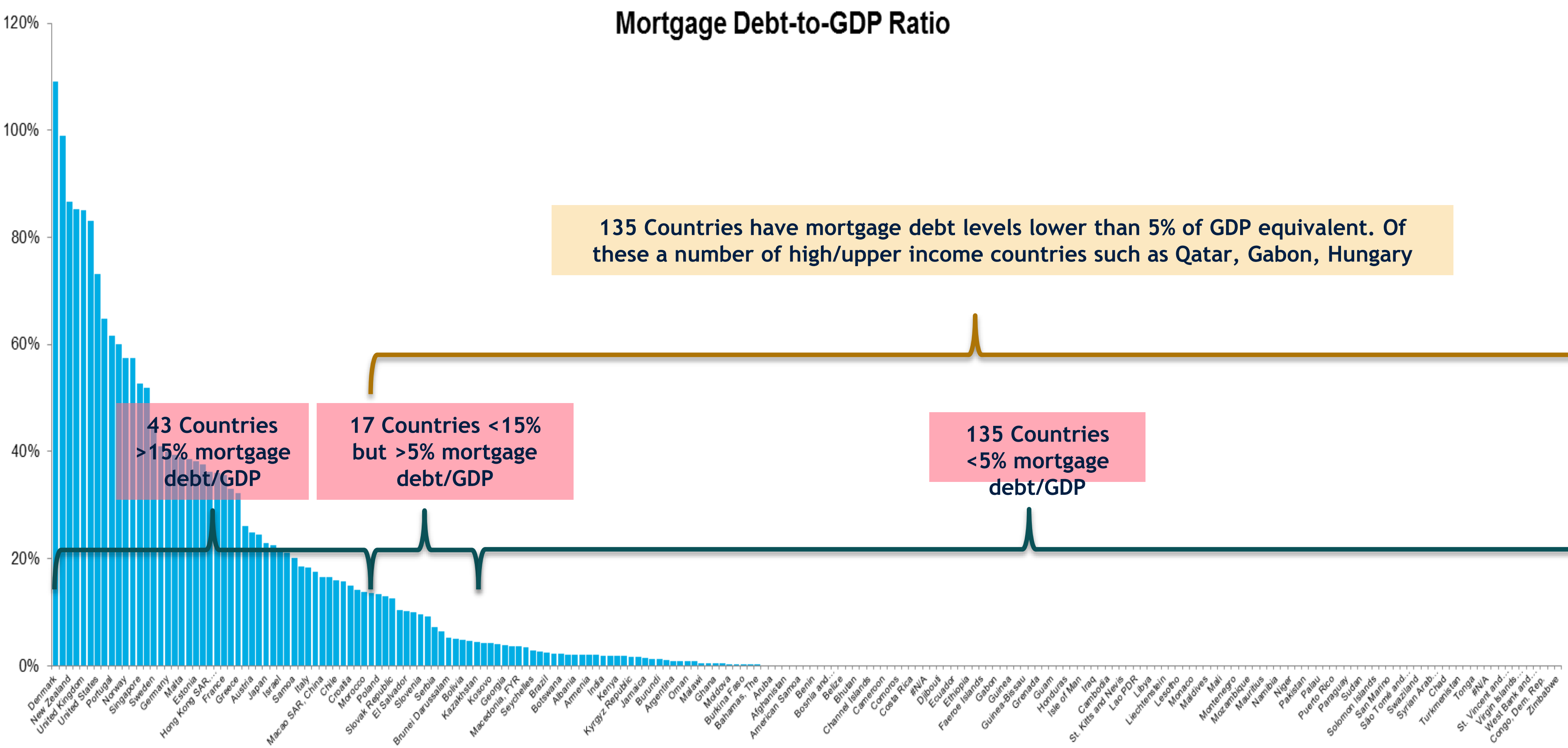
# MORTGAGE LIQUIDITY FACILITIES


WORLD BANK GROUP

# MORTGAGE DEBT TO GDP




*Source: World Bank mortgage Database*

WORLD BANK GROUP
Finance & Markets

# MORTGAGE SECURITIES

- Huge HF gaps in urbanizing EMEs = as large SME or infrastructure finance -> catalyst responsibility for WBG ops + convening role
- Lenders unable/unwilling to expand (fixed rate; lower income; Basel)

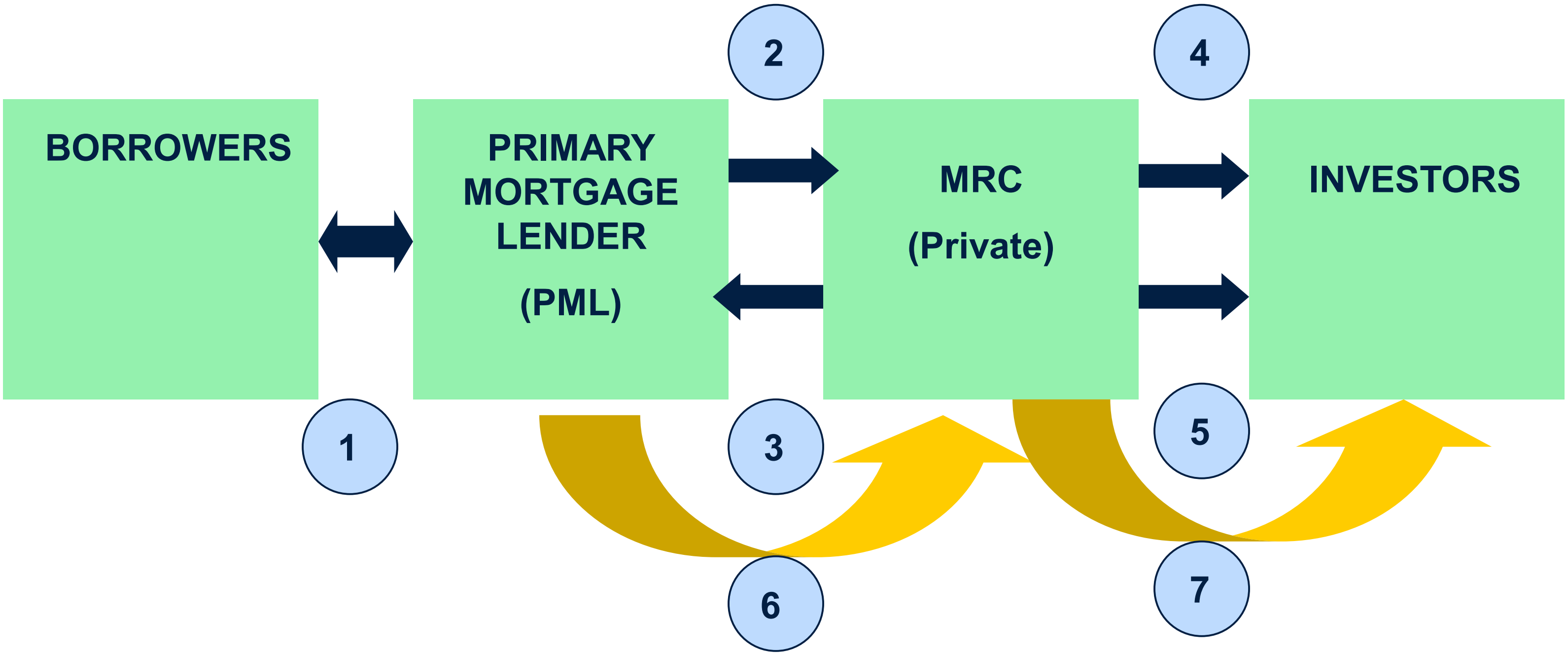
- Scale up long term funding through bond markets from institutional investors (and complement volatile bank deposit bases)
- Catalyst of larger and competitive mortgage markets
- Helps to standardize and improve risk management
- High quality fixed income assets for pension funds

- Different models : centralized or not, off or on balance sheet, securitization, covered bonds, liquidity facility ->subject PPT
- Choice depends on context, market realities, net costs of funds

# Liquidity facilities

- L: issued private bonds  A: refinanced mortgage lenders
- Qualified mortgage loans as guarantee (pledged or sold with recourse)
- All credit risk remains with primary lenders
- Not to securitize but just provide long term refinancing
- Scale effect to access to bond markets for more lenders
- Catalyst role on market expansion (even when not used…)
- Anti-cyclical liquidity role (key for CBs)
- Robust system (dual collateral; risk adverse) ➔ goal: top rating
- Usually privately owned by users (also possible CB)
- Adjusted regulations and governance
- Malaysia, Jordan, Nigeria, Tanzania, Egypt, UMOA, USA, Switzerland, France
- Possible transition to securitization conduit model

# MORTGAGE REFINANCE FACILITY MODEL




1. Qualifying mortgage loans
2. Primary mortgage lender assign/pledges rights to mortgage loans to MRC
3. MRC extends term refinancing loan to PML
4. MRC issues term notes/bonds to investors (equal duration)
5. MRC pledges PML loans and collateral to investors
6. PML repays loan
7. MRC repays bonds

# REGULATION and GOVERNANCE

- Simple and transparent governance
- “Open club”: cooperative approach among primary users
- …but independent management
- privately owned, sometimes CBs (limit state support)
- Should be run on a market basis; interface with bond market investors
- Strong regulation; often tailored from banking
- Incentives for bonds: eligible to CB liquidity, taxes, capital requirements, investment limits etc.

# FINANCIALS and RISK MANAGEMENT

- Highest rating for a non-sovereign
- Low margin to cover operating costs (0% to 1%)
- Limited or no dividends, ability to raise capital
- Quality mortgages (loan to value, seasoning,…)
- Over-collateralization (110%-120%)
- Credit risk stays with lender
- Verify periodically compliance of pool



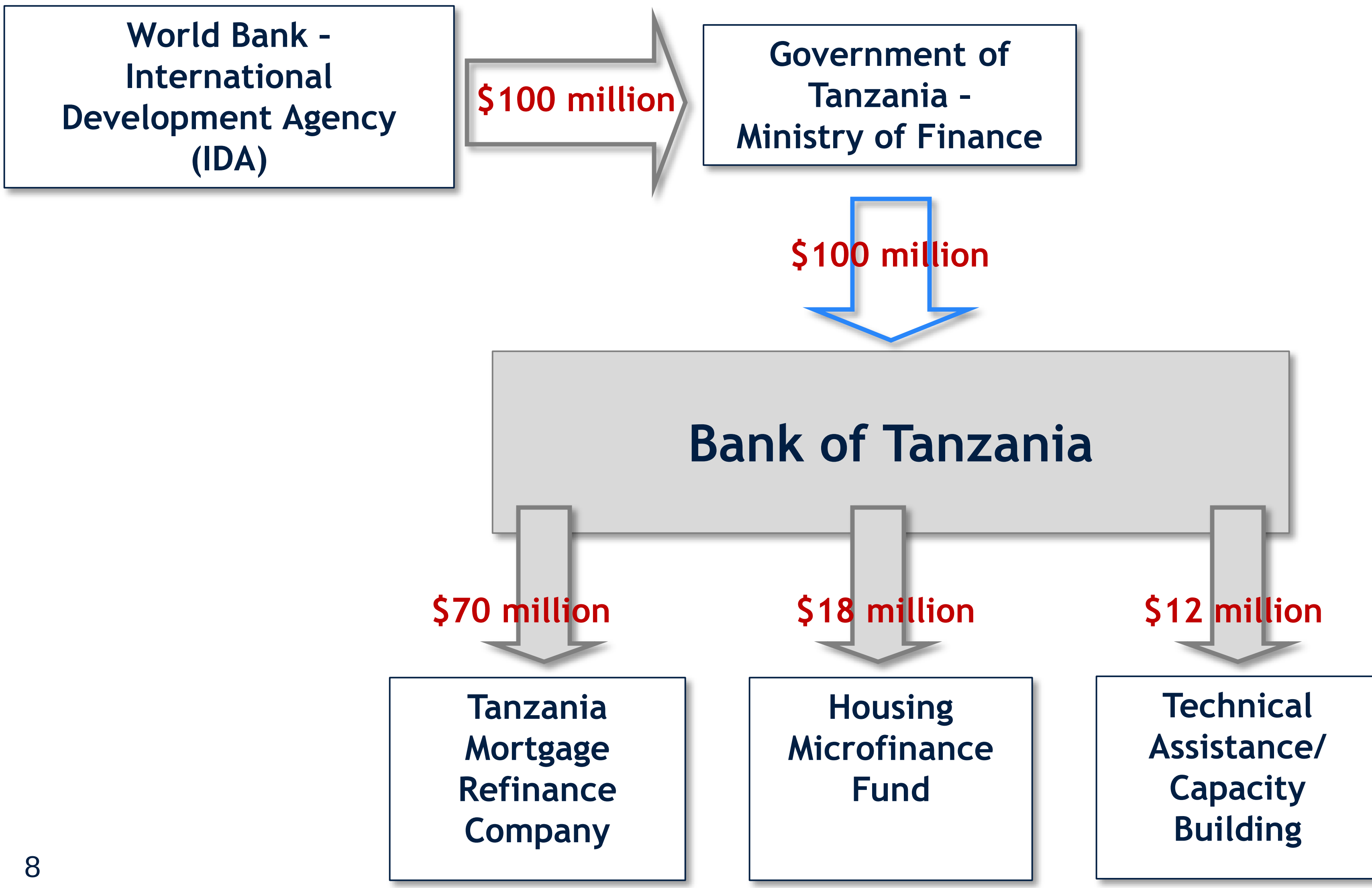
- Pre-payment penalty

# TANZANIA HOUSING FINANCE PROJECT

**To expand access to affordable housing finance under market based conditions for the purchase, construction or upgrading of housing.**

| OBJECTIVE | PROJECT COMPONENTS |
| --- | --- |
| To improve access to long-term housing mortgage finance, progressively mobilized through the domestic capital market | **I - Development of the Mortgage Market** |
| To develop access to medium-term housing micro-finance | **2 - Development of Housing Microfinance** |
| To expand the supply of affordable housing by private developers | **3 - Expansion of affordable housing supply** |

# FLOW OF FUNDS



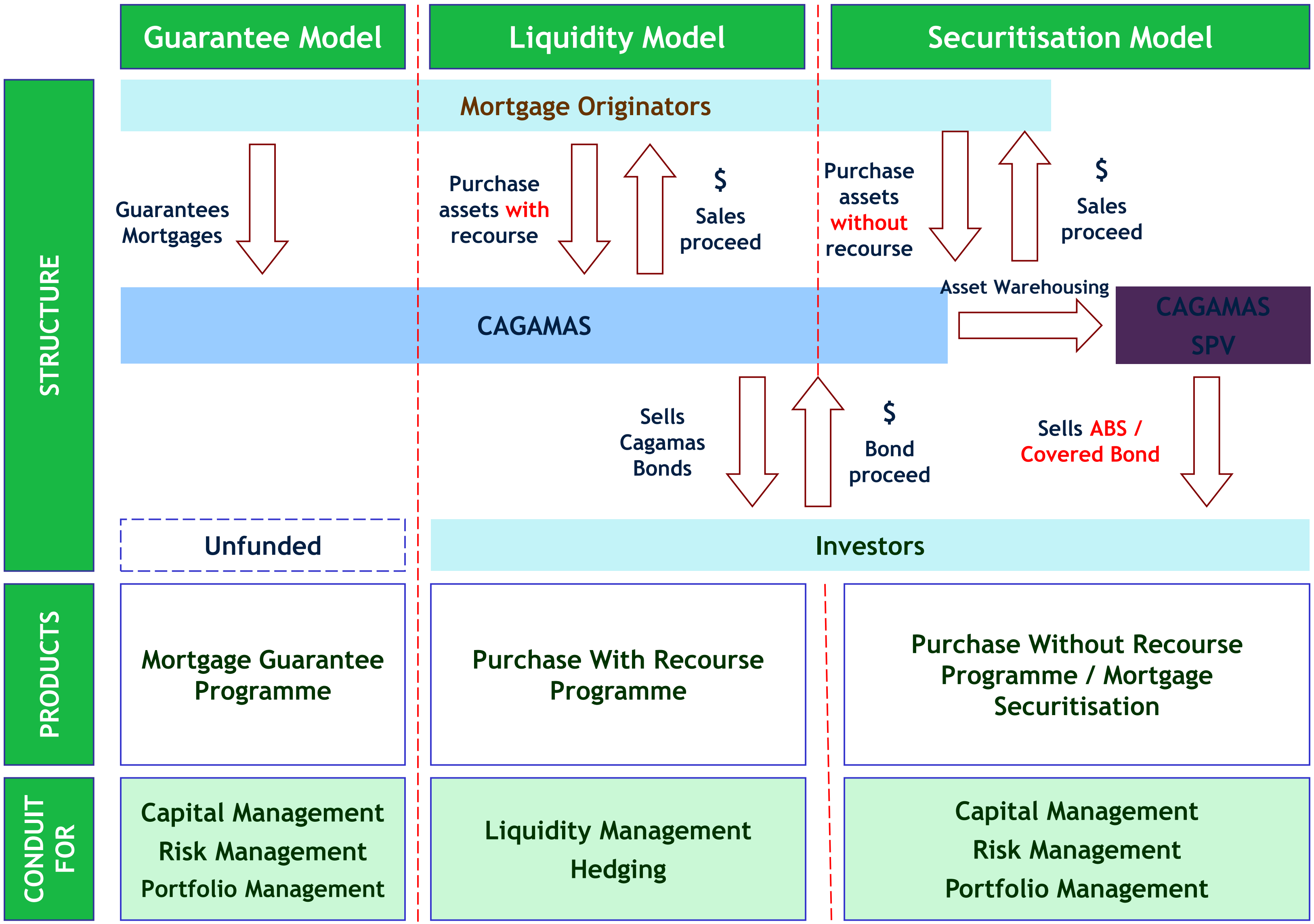
# RESULTS

- Establishment of TMRC – private company
- Mortgage market growing at around 50% per annum – but from small base (just over 5,000 loans in total)
- 3 lenders at start of project now 24
- New mortgage regulations
- Mortgage education and literacy program
- Restructuring and reform of National Housing Corporation
- Establishment of a Housing Micro Finance Fund
- Capacity building program for mortgage lenders

# Example 2 –
# CAGAMAS MALAYSIA

- Set up in 1987 to help develop housing lending
- Privately owned (70%) but operated by Central Bank
- Innovative steps– Islamic finance, securitization
- Major catalyst for developing private bond market

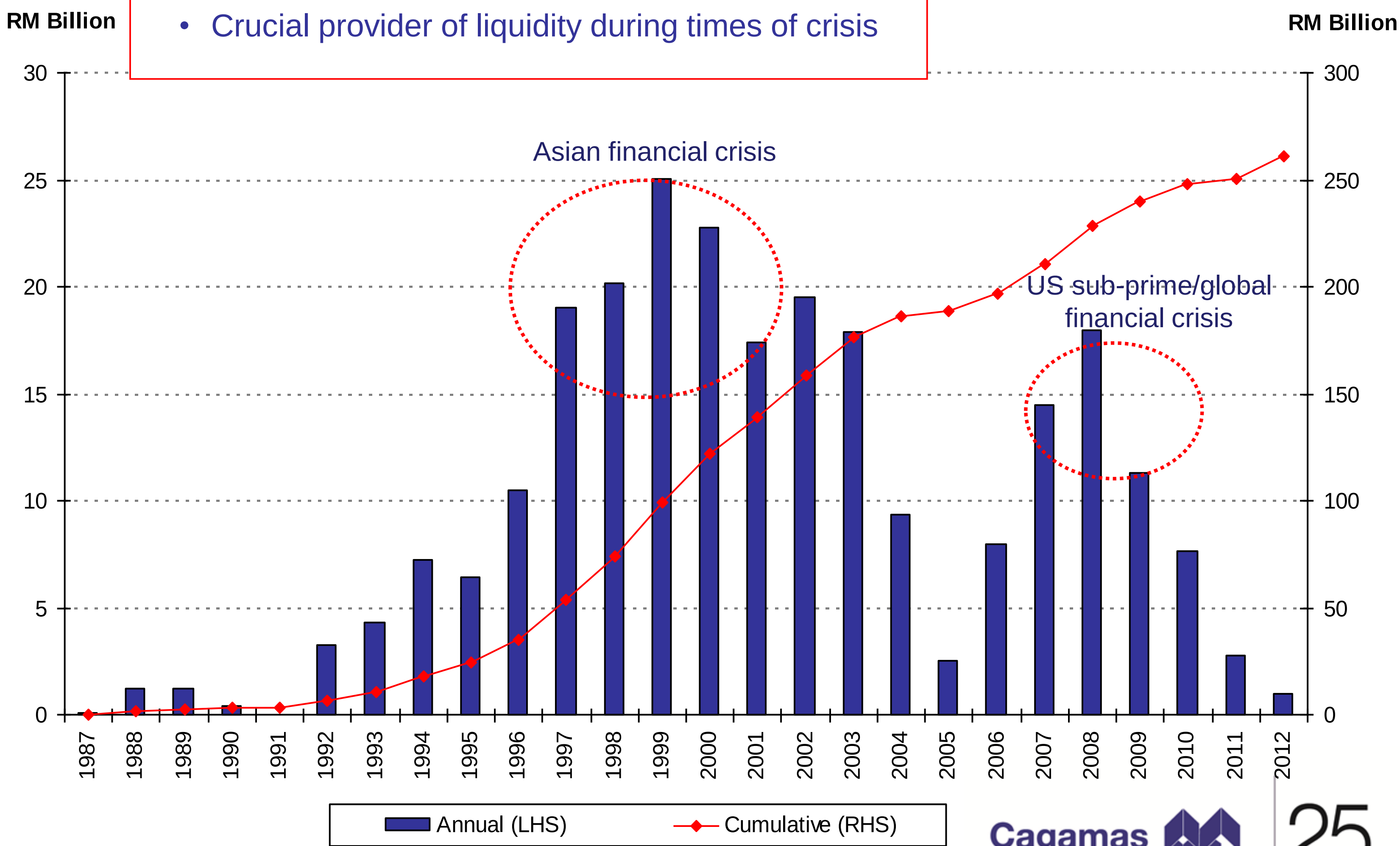
# CAGAMAS Business Model



# Role of Cagamas

Provided liquidity of about RM265.6 billion to the financial sector to date*

- Crucial provider of liquidity during times of crisis




Cagamas

25 Years of Housing the Nation

# Example 3 – CRH FRANCE

- Very simple mechanism
- Just 9 employees
- No margin charged
- Complements covered bonds and securitization
- Provides funding access for small cooperative banks

# Example 4 – EMRC Egypt

- Created in 2006 (seed World Bank loan)
- Privately owned
- Aims to develop private mortgage lenders
- Still nascent mortgage markets
- Catalyst effect on lending, but not on bond markets
- Indirect positive effects on mortgage markets

# COVERED BONDS

Double Recourse Mechanism :

- Mortgage portfolios pledged to bondholders (on top of bank liability)
- Bondholders' privilege in case of insolvency
- Cover pool segregated from other assets (sufficient to service bonds any time)
- Dynamic pool: NPLs regularly replaced
- Insolvency not an event of default
- Quality criteria for those assets (ex: max LTVs)
- On going supervision by controllers/trustee

Advantages for banks: long funding, rating enhancement, cost effective, on BS

Advantages for investors: high security, yield pick up, global resilient asset class, liquidity

CB issue : large volumes could weaken bank depositors in case of bankruptcy

Sizeable markets in Chile, EU countries, Canada, Australia

Needed specific law and bylaws (best practice and standards)

More countries adopt both MBS and CB models: Turkey, Chile, Romania, Morocco, Brazil, Colombia, Singapore, Poland, Costa Rica, Uruguay, Peru, South Africa