The complex challenge of building a home loans market in Ghana

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Inadequate real-estate supply and the absence of a deep capital market have hampered the development of the home loans market in Ghana. The rapid success of Ghana Home Loans, which now provides nearly half of all home loans in the country, shows that there is a large and unmet demand for these products. Sustained efforts by the government and regulatory authorities are required to build an enabling environment and to create the conditions for increased access to mortgages.

It is a truism that in developing countries demand for housing outstrips supply. In Ghana the deficit is estimated at more than 1 million housing units, and growing by up to 70,000 units a year (UN Habitat, 2011). Much of this demand is for low-income social housing. The 2010 National Housing Policy was crafted to incentivise the private sector to provide housing for all income brackets, notably through tax holidays and financial guarantees for real-estate developers or zero tax on equipment and machinery imported for housing construction. The long-term effect of these policies still remains to be seen since private real-estate developers provide only 10% of the new housing supply, with the remaining 90% being delivered by householders themselves. Few Ghanaians can afford to acquire their homes and most of them lack access to home loans facilities. Most banks neglect the home loans market and focus instead on short-term lending and investment such as risk-free government bonds and trade finance facilities that can offer higher returns while consuming less capital. Only four of Ghana's 26 banks officially offer home loans as a product. The total home loans book in Ghana is around USD 180 million and the number of borrowers just under 6,000 (*Figure*).

FIGURE : LE MARCHÉ DU CRÉDIT IMMOBILIER AU GHANA

	Portefeuille (en millions de dollars)	Part de marché (%)
Ghana Home Loans (GHL)	84	47
HFC Bank	47	27
Fidelity Bank	24	14
CAL Bank	6	3
Ghana Commercial Bank	4	2
Barclays Bank	12	7

Source : GHL 2013

A business model tailored to Ghana's market

Ghana Home Loans (GHL) was launched in 2006 as a non-bank financial institution (NBFI)[1] specialising in home financing to respond to the large unmet demand for home loans. GHL is the only non-bank housing finance operator in Ghana with a portfolio of USD 84 million and a market share of around 50%, which it achieved within just a few years. Ghana Home Loans modelled its operations on South African Home Loans (SAHL), a very successful non-bank home loans provider, and was supported by the same shareholder, Standard Bank, a major South African bank. The NBFI status was chosen over a banking model because of the relatively lower start-up capital requirements and the fact that being a bank did not offer any immediate advantages because of the lack of the long-term savings in Ghana needed to provide long-term home loans. In addition, this pure-player business model is able to deliver a more efficient and tailored service to customers than banks can provide (*Box*).

The strength of the non-bank model in South Africa

The home finance market in South Africa is dominated by the big retail banks – Nedbank, ABSA, Standard Bank and FNB – who have a 90% market share. Their dominance is due to the size of their balance sheets, unrivalled access to data on customers, extensive branch networks, brand recognition and a wide product range. Though only relying on securitisation, non-bank home loan providers such as SAHL and Interger are nevertheless able to compete with large banks as their focus on one type of product enables them to offer a faster service without incurring the cost of maintaining branch networks. The sustainability of the non-bank model is evidenced by the fact that even in mature economies like Britain, non-bank institutions such as Paragon still exist. South African NBFIs, after mastering securitisation funding mechanisms, have demonstrated their ability to succeed. The market in Africa is growing and is potentially large enough in many countries to accommodate both banks and NBFIs.

Initially GHL only offered loans for the purchase of completed properties. That sector currently accounts for 82% of its portfolio. But given that most homeowners in Ghana prefer to build their own homes, the company has greatly expanded its product range. It now includes loans to complete a house that the borrower has started building; loans to build a house from scratch; loans to buy land; and home equity releases [2]. Since commencing operations, GHL has disbursed more than USD 115 million to 1,600 households, with an average loan size of USD 69,000 (World Bank, 2013), and strong asset quality with a level of non-performing loans of less than 3%.

In the absence of a mature financial market in Ghana offering long-term resources and a securitisation framework, the only possibility for GHL is to secure long-term funds from foreign development finance institutions (DFIs) in US dollars (*Box*). This funding from the DFIs has compelled GHL to lend in US dollars although half of its borrowers earn local currency salaries. Therefore, cedi-earning borrowers face an exchange-rate risk as historically the cedi has depreciated by 13% per annum. However, this is compensated by annual wage increase of 15%. In order to protect borrowers against higher than expected cedi depreciation, GHL has set up a scheme to encourage borrowers to pay approximately 10% more in local currency than the precise scheduled monthly repayment. This allows them to build a reserve so that if the currency depreciates they can use that reserve to make up for any shortfalls in their repayments prior to any salary adjustments.

Securitisation, pooling loans as collateral to issue bonds

Securitisation is a process by which a lender creates an homogenous pool of home loans and uses the cash flows from this as collateral to issue securities (bonds) to local or international investors. The value of the pool used as collateral is often higher, normally by 10%, than the amount raised by the issuance. Credit-rating agencies, lawyers and accountants are employed to evaluate the pool in order to assure buyers of the securities that they are not being sold non-performing loans. The home loan lender can use securitisation to gain further liquidity to write new loans and may benefit from a lower regulatory capital requirement. The home loan lender also looks after the loans on behalf of the investors for a fee. Investors get a better match of their liabilities, often long-term periodic pension payments, to their assets, the proceeds from the securities.

Lending in US dollars obviously has its risks, but it actually enables the borrower to afford a property. Interest rates in US dollars are far below local-currency rates, which can reach 30% per year and are thus unrealistic for most customers. While US dollar loan interest rates are lower than cedi loans, they are still high, up to 15 % for dollar loans. Inevitably GHL’s products are mostly accessible to middle-income earners. The ambition of GHL is, however, to target lower-income segments in the future. The deepening of the financial market as well as changes in the real-estate sector will be needed to achieve this objective.

The specific challenges of Ghana's housing sector

The mortgage market in Ghana is still in its infancy. With a total home loans book of USD 180 million, it is far less developed than the market in South Africa, which is valued at approximately USD 170 billion. The huge difference in size is due to various economic and financial factors and to the nature of the housing market in each country. In Ghana, the stock of mortgageable properties is small, while in South Africa it is large and coupled to a well-developed secondary property market supported by an extensive real-estate-broker network, which makes it easier for home loan providers to achieve scale rapidly. The South African non-bank sector has grown rapidly and has been boosted by its mortgage switching facility [3]. In Ghana, real-estate brokers are still informal, although professional institutions such as Broll and JHI of South Africa have begun to enter the market. Ghana Home Loans predominantly writes loans on new properties and took over five years to disburse USD 100 million. By comparison, SAH reached USD 1 billion within three years, mainly due to borrowers switching to them from banks to avail themselves of better interest rates. The development of a secondary property market in Ghana, currently impeded by the fact that homeowners see their properties as purely for accommodation rather than as an investment, will be required to fuel the growth of the home loans market and to enable home loan providers to achieve scale.

The limitations of the capital market in Ghana have proved another challenge to GHL. So far, the only access to long-term funds at competitive rates has come from DFIs. In South Africa, NBFIs have been helped by increasingly deep and sophisticated capital markets that have given them access to securitisation since 1989, enabling them to obtain funds at costs similar to banks and to fund their loans using capital markets and in local currency. This is a luxury not available to GHL, whose funding model involves negotiating long-term facilities with DFIs and reimbursing these using repayments from the pool of home loans. Each of the long-term lenders can follow its own pool of home loans and related collaterals – registered titles and securities. At this stage, GHL is not able to diversify its funding sources to include private capital markets because the capital market in Ghana is small and illiquid and a securitisation framework has still to be built.

In Ghana, as in many developing countries, home loan providers such as GHL or the local commercial banks face many other challenges, such as inadequate property supply, unsophisticated underwriting techniques due to a lack of well-developed and resourced credit reporting systems, and delays in title registration. They also suffer from difficulties in collateral enforcement, which are exacerbated by a lack of government incentives such as mortgage tax relief or first-time home purchase subsidies, and by a lack of long-term capital in the capital market.

Prospects for the home loans sector in Ghana

The home loans market environment in Ghana has recently seen signs of significant improvement. These include the introduction of credit bureaus that give lenders access to the credit history of borrowers within seconds; legislation to speed up the foreclosure process, reducing it from 18 months to just over 90 days; and a new collateral management regime that allows for immediate online registration of collateral at the Bank of Ghana – prior to 2010 the process took up to 18 months.

There has also been a gradual extension of local-currency bond tenors –from five to seven years – while government and regulatory institutions have prioritised the development of a viable bond market. Additionally, pension reform has granted the private sector access to pension fund management – previously a state monopoly – and thereby created a new pool of long-term commercially investible funds. It is in this context that GHL is striving to build an adequate securitisation framework with all relevant stakeholders to issue its first mortgage-backed security in Ghana by the second quarter of 2014.

Though significant progress has been made, the government needs to also consider subsidising developers so that construction costs will be reduced and passed on to homebuyers, or subsidise buyers, via measures such as mortgage tax relief, to increase affordability. Urgent areas for reform include introducing the legal and regulatory framework for securitisation, and faster title transfer, building approval and foreclosure processes. Ultimately, as in many emerging economies, it is only with a deep, liquid, long-term local currency bond market with the adequate regulation, fiscal and legal frameworks and enabling institutions, such as credit rating agencies, that Ghana will be able to create a viable home loans market.

The GHL experience has been that, despite the difficult operating terrain, the demand for home loans is very strong and that most borrowers are firmly committed to meeting their loan obligations. This underlines the need for further efforts to create an enabling environment. This will be a key condition for lowering interest rates, which in turn will help improve access to home loans for all income brackets.

Footnotes :

[1] A non-bank financial institution is any financial institution other than a fully-fledged bank licensed and supervised by Bank of Ghana.

[2] A loan, using a property already owned as a collateral, for specific purposes such as home improvement, medical, education and business expansion.

[3] Switching mortgage is where a borrower switches their loan liability from one lender to another to benefit from a more competitive interest rate.

References / Ghana Home Loans, 2013. In-house competitor survey. // **UN-HABITAT, 2011**. Affordable Land and Housing in Africa. Nairobi. // **The World Bank, 2013**. Ghana at a glance 2013. http://devdata.worldbank.org/AAG/gha_aag.pdf.