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Briefing

The Tanzania Mortgage Refinance Company

The Tanzania Mortgage Refinance Company (**TMRC**) is a financial institution owned by Tanzanian commercial banks and supported by the Government of Tanzanian and the World Bank Group, aimed at providing liquidity to commercial banks to strengthen their residential property mortgage-backed lending, with the ultimate aim of stimulating the mortgage finance market in Tanzania and making mortgage loans more available and affordable to individuals. This update looks at the development of TMRC to date and the products offered to Tanzanian banks.

Current financing and structure

TMRC started in 2010 with five original shareholder and is currently owned by 11 banks: CRDB Bank Plc, Azania Bank Limited, Tanzania Investment Bank, Exim Bank (Tanzania) Limited, National Microfinance Bank Limited, Dar es Salaam Community Bank Limited, NIC Bank, BancABC, National Bank of Commerce, the Peoples Bank of Zanzibar Limited and Bank of Africa Tanzania. Membership is open to any financial services institution licensed by the Bank of Tanzania, with a minimum equity subscription of TSH 500 million, and only shareholders are permitted to access TMRC's products. To date, TMRC's equity contributions stand at over TSH13 billion, with issued loans of over TSH 16 billion.

The company is also currently financed by a line of credit from the World Bank, accessed via the Bank of Tanzania.

Current products

TMRC is a mortgage liquidity facility, providing two types of financing which can be accessed by its shareholding institutions: refinancing and prefinancing facilities for the banks' underlying mortgage-backed residential loan portfolios.

Refinancing product

Through the refinancing facility, TMRC will refinance qualifying mortgage portfolios of its member banks, thereby providing matched funding to the banks at a more reasonable cost and for a longer term than may have previously been available in the market, allowing them to expand their mortgage products with the intention that they should pass on the pricing benefits to their customers.

Criteria for the banks' underlying loan portfolios to qualify for refinancing include the following:

- each loan is local currency and the borrower is a natural person (not a company);

- the loan is fully disbursed and for the purchase, refinance, construction or renovation of residential property;
- the loan payments are up to date at the point of refinance and have been performing for a minimum of 6 months;
- the loan is secured by a first ranking mortgage with 25% over-collateralisation; and
- the mortgaged property is insured.

Against such a qualifying loan portfolio, TMRC will offer a refinancing loan facility on the same terms to each qualifying shareholding institution. The term is 3-5 years, with an option to roll over at the end of the term and the interest rate is calculated on a fixed formula based on the 182 day T-bill rate, plus a risk premium and maturity spread and margin, but less a discount which makes the product commercially viable for local banks. The current interest rate is in the region of 10% per annum.

The size of the facility will depend on the qualifying underlying portfolio and the amount of paid in equity of the member bank (capped at 20 times the bank's equity investment in TMRC).

TMRC will then take a debenture over the underlying portfolio of the bank (which is itself also 25% over collateralised). The portfolio is regularly updated as the underlying loans amortise (or cease to qualify for any reason, such as default), in order to ensure full coverage. Thus TMRC is not impacted by individual underlying defaults, providing that the bank can provide alternative qualifying loans to fall within the debenture.

TMRC will closely monitor the performance of the underlying portfolio, but will not be involved in the management of the underlying loans, nor will it directly input into the rate setting for the underlying loans.

Prefinancing product

The refinancing product has been available since 2011, with the first facility drawn in November 2011. However, many Tanzanian banks do not yet have sufficient portfolios which meet the qualification criteria and therefore they are not yet ready to access the refinancing product. Indeed initially only four of TMRC's members were able to qualify. Hence TMRC has now developed a new prefinancing product, aimed at helping banks to develop new residential mortgage-backed finance portfolios.

Essentially the prefinancing facility is similar to the refinancing facility, but, rather than requiring the qualifying portfolio to be in place up front, it grants a three year period over which the portfolio must be established. As security during the establishment period, the bank may provide 105% collateralisation of T-bills which it may be holding in any case for capital adequacy purposes.

This product has proved popular and should provide a catalytic effect in terms of prompting banks to bring in new residential mortgage finance products.

Future financing

Looking forward, TMRC hopes to expand its membership to encompass more of the Tanzanian banks, particularly given the availability of the prefinancing facility. In addition, membership and equity investment is set to be opened up to non-bank financial institutions with an interest in the property sector. This would allow institutions such as the African Development Bank, Shelter or the National Housing Corporation to become members.

In addition, the company aims to issue corporate bonds during 2014 (which could be accessed by non-financial institution investors), although details of these are yet to be released.

Impact on the market

The key question for TMRC from an individual's perspective is what impact is it having on the Tanzanian mortgage market? As set out above, there is no compulsion for banks to pass on any preferential rates, received on their TMRC funding, to borrowers, and TMRC does not specifically monitor its members' pricing. As yet then, there is little evidence of a fall in interest rates, and Tanzanian shilling mortgage rates remain high, in the region of 18 - 20% across the market. Perhaps, rather than focusing on prices, a better question is whether the TMRC has improved the availability of mortgages to Tanzanian retail customers. The uptake on the prefinancing facility would certainly suggest that it is making headway in encouraging the increase of such products on the market.

Further information

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