

# Housing Finance Workshop For Sub-Saharan Africa

4 November 2008  
Johannesburg

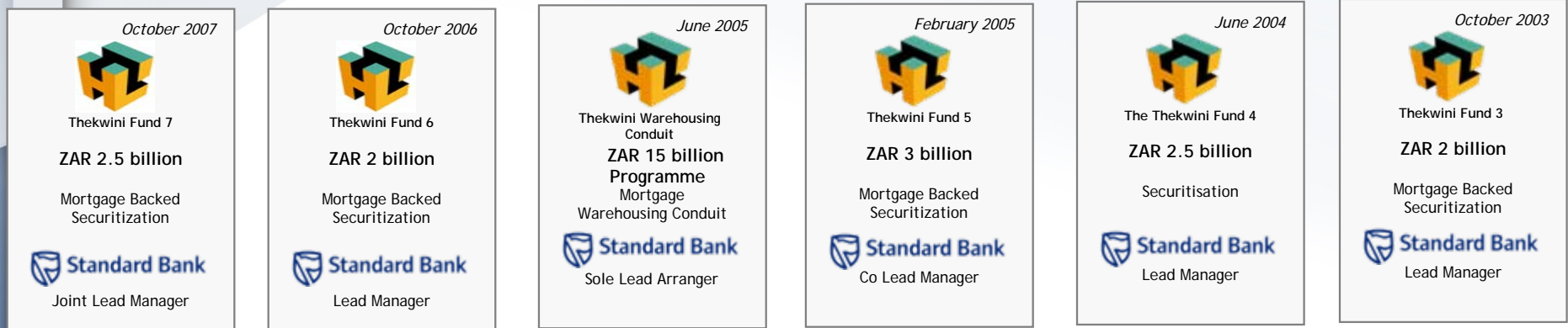


 **Standard Bank**

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## Case study – South African Home Loans (SAHL)

- Established in 1998, SAHL was the first non-bank mortgage lender in South Africa
- Standard Bank holds a significant equity stake in SAHL and provides warehouse funding as well as securitisation services to SAHL
- Securitisation is a core part of SAHL's funding model
- SAHL launched the first RMBS transaction in South Africa in November 2001 and has gone on to issue a further 6 RMBS transactions (Thekwini 2 to 7)
- Second largest issuer of RMBS in South Africa behind Standard Bank
- SAHL regarded as a pioneer of RMBS in South Africa, being the first also to establish a residential mortgage warehousing conduit
- SAHL warehousing conduit was the first to issue extendible notes in the South African market as well as short and long term notes

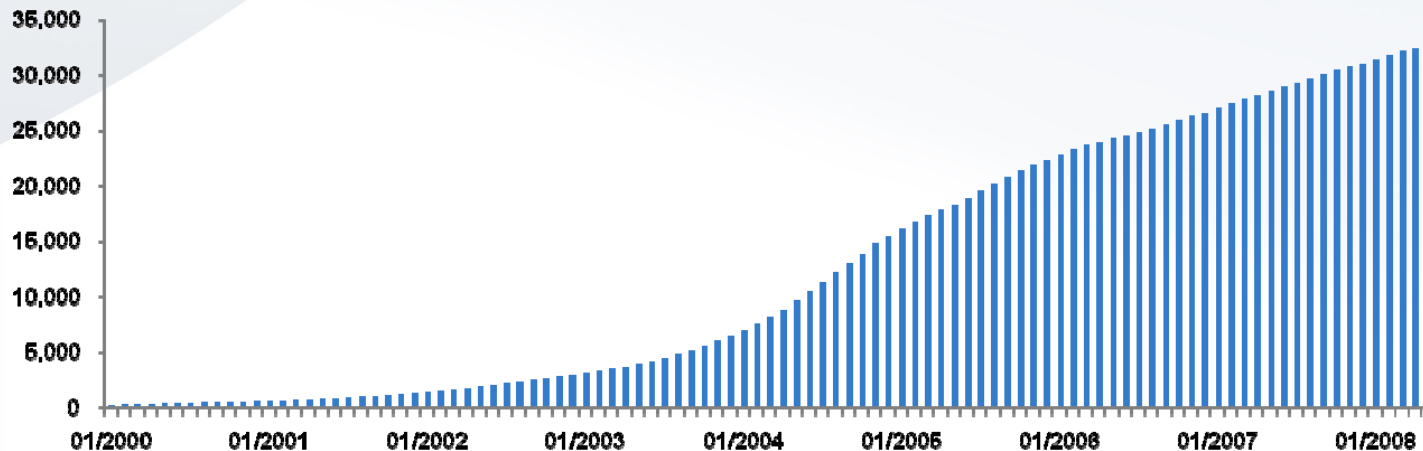


# Case study – South African Home Loans (SAHL)

## SAHL core portfolio - loan eligibility criteria

- Low LTV < 81%
- Low PTI < 31% at grant
- Applicant : 21-65 years of age
- Maximum term : 23.5 years
- Security : mortgage bond
- Ability to redraw prepaid principal (with manual intervention)
- Mostly owner occupied properties
- Homeowners insurance required to be taken out and maintained

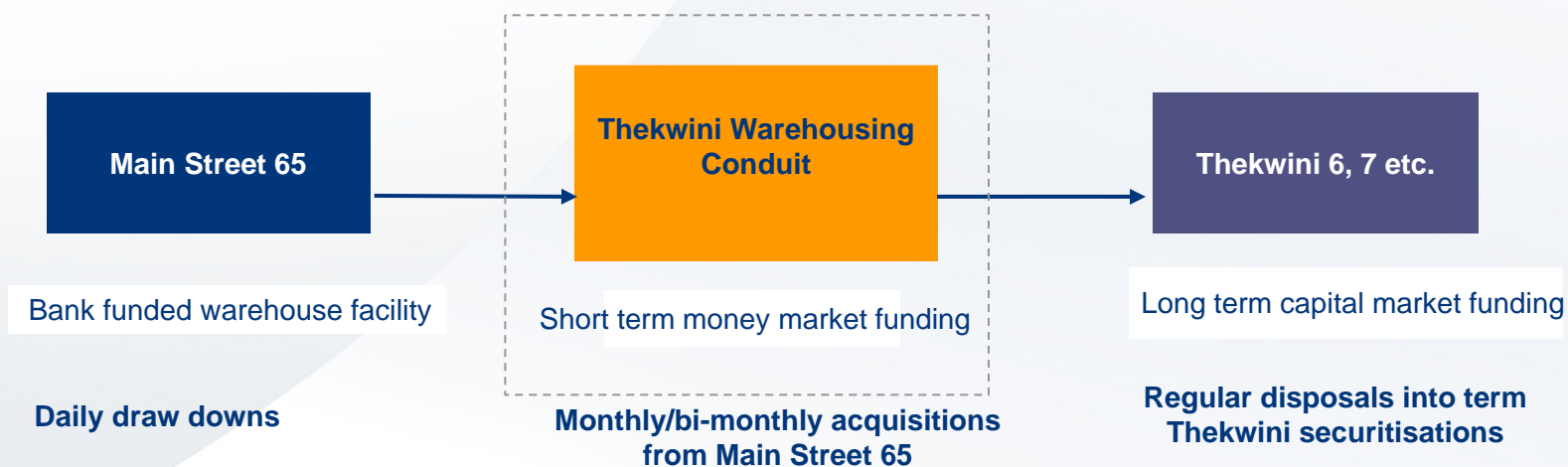
## Assets under management (R mn)



R. Millions

## Case study – South African Home Loans (SAHL)

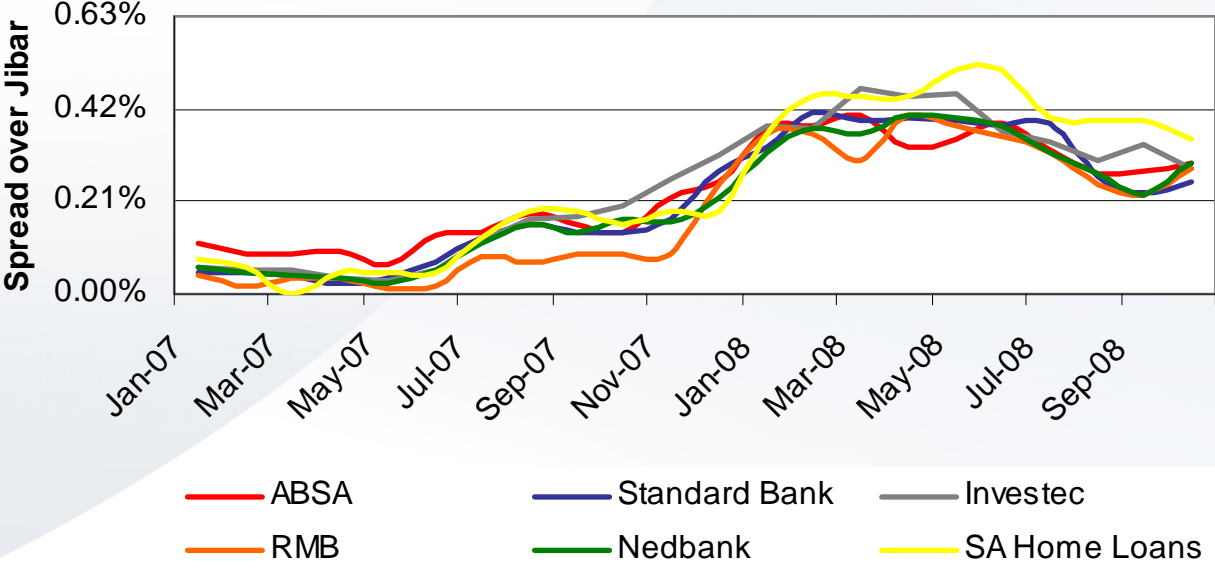
### SAHL core portfolio – funding model



- Thekwini Warehousing Conduit established in 2005 as a means for SAHL to:
  - diversify its funding sources
  - benefit of short term funding rates
- Thekwini Warehousing Conduit reached a peak of R9bn in February 2008
- Size is currently being reduced due to liquidity pressures in the money market

# Case study – South African Home Loans (SAHL)

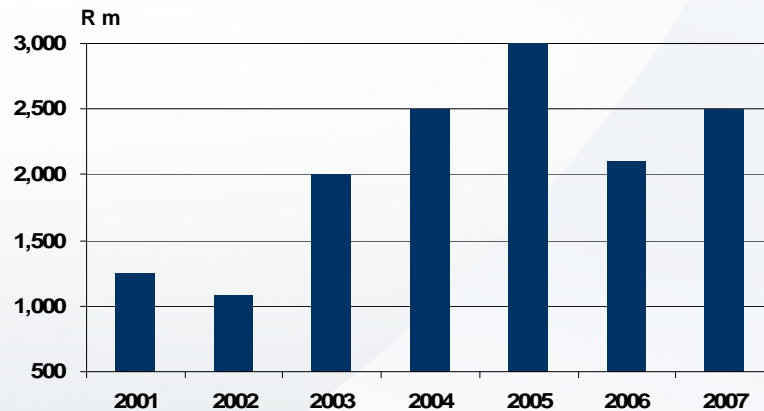
## Conduit funding spreads



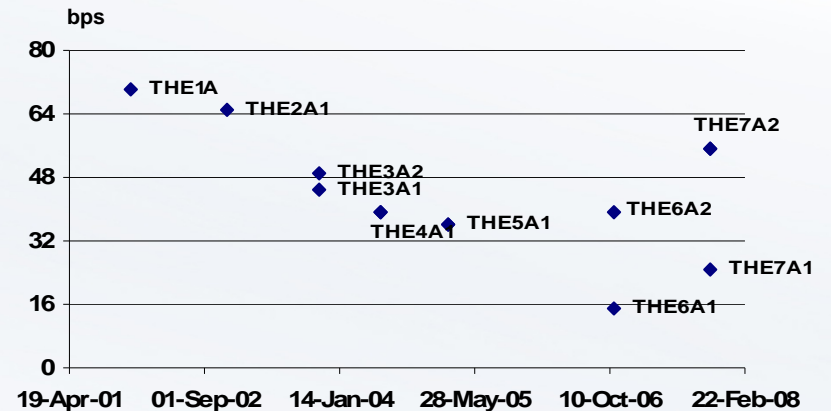
- Spread widening due to
  - liquidity concerns
  - negative sentiment from the global credit crisis
  - oversupply of commercial paper in the domestic money market

## Case study – South African Home Loans (SAHL)

### SAHL's cumulative term securitisation issuance



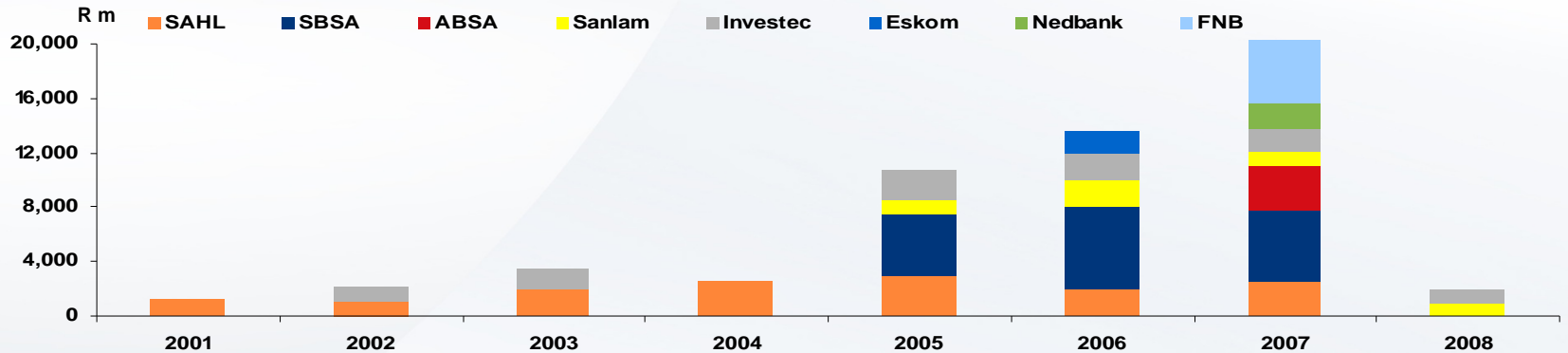
### Spreads on the Thekwini issues



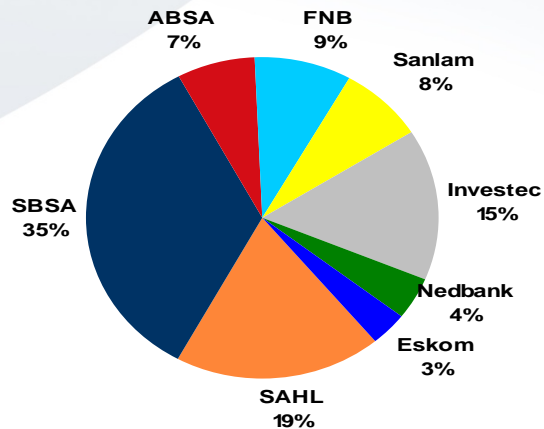
- 5 year AAA spreads in 2001 were Jibar plus 70bps
- Lowest spread of Jibar plus 40 bps achieved for Thekwini 6 in 2006 and Thekwini 7 in 2007 achieved pricing of Jibar plus 55 bps for 5 year AAA notes
- Thekwini 8 postponed due to limited investor appetite
- Questions regarding sustainability of SAHL funding model
- Domestic investors reaching limits for RMBS and adopting a “wait and see” attitude regarding global credit crunch
- No real performance related concerns on the mortgage portfolio

# RMBS issuance in the securitisation market – South Africa

## Total RMBS issuance per year



## Total outstanding RMBS per issuer

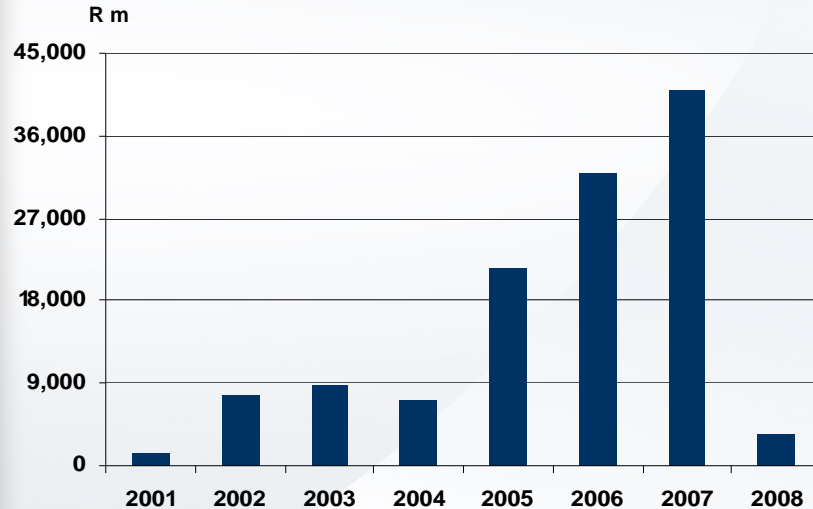


Sources: BESA, Standard Bank Group

- Issuance dominated by Standard Bank and South African Home Loans
- RMBS used by all major banks in South Africa as a funding mechanism to fund significant asset growth
- Major benefits to banks include:
  - management of structural liquidity risk
  - reduced capital
  - reduced prudential requirements

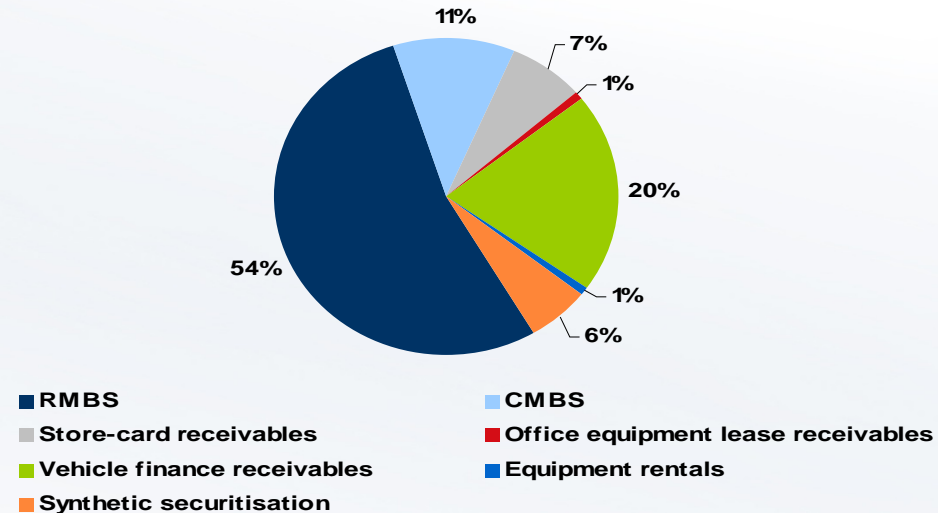
# Overview of the securitisation market – South Africa

## Yearly term issuance



Sources: BESA, Standard Bank Group

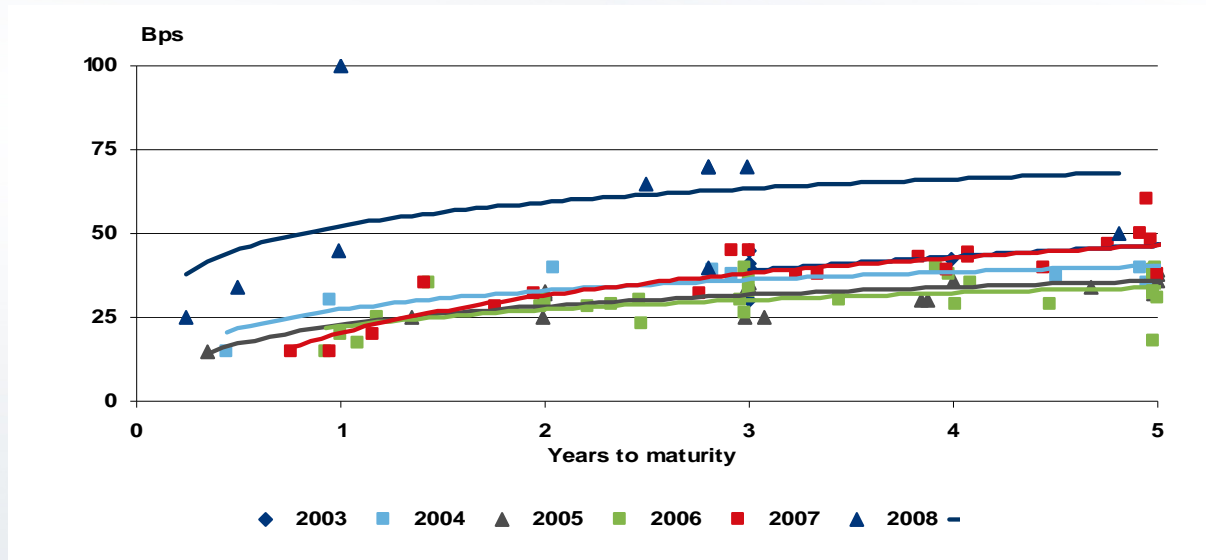
## Term issuance by asset class (to date)



- Market started developing in earnest after 2001
- Smooth functioning of capital markets – have been in existence for decades
- Strong macroeconomic fundamentals
- Strong domestic investor base
- Cumulative market issuance in excess of US\$15bn
- Issuance dominated by RMBS transactions

# Spreads in the securitisation market – South Africa

## AAA spreads in South Africa



Sources: BESA, Standard Bank Group

- Spreads started to widen mid way through 2007 and are currently significantly wider than those seen in previous years
- Widening in spreads caused by
  - Large volume of paper and oversupply of certain asset classes (particularly RMBS)
  - Consumer credit concerns, rising interest rates and weaker inflation outlook
  - Negative sentiment in the global economy resulting in a lack of liquidity
  - Decreased participation of ABCP conduits

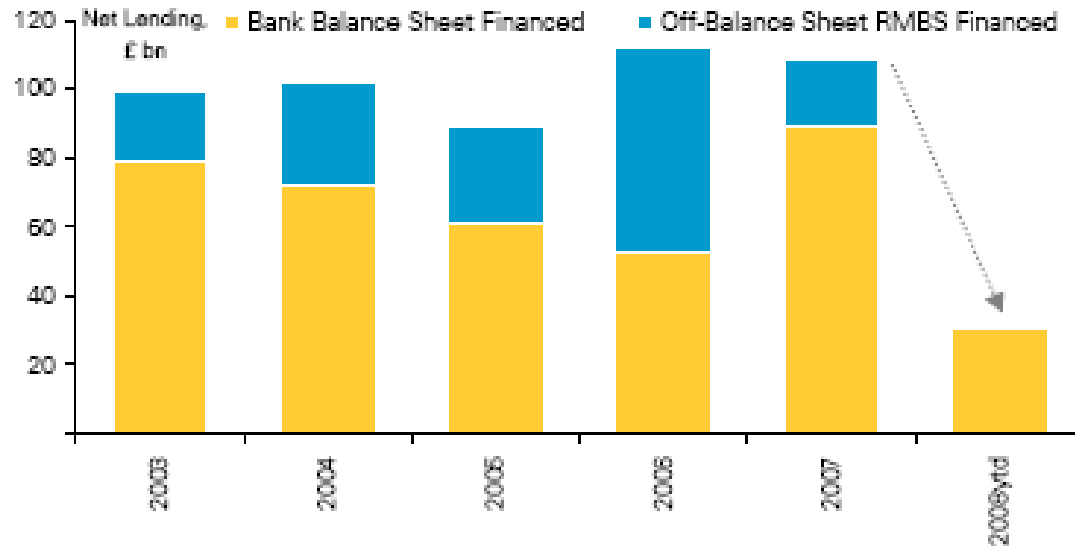
## Recent spreads in the RMBS market – South Africa

Date	Issuer	Nominal value of deal	Term	Spread over 3m Jibar
<b>AAA</b>				
22 June 07	iKhaya 2	2,884	5yrs	47
1 Aug 07	Sanlam Home Loans	1,113	5yrs	46
20 Aug 07	ABSA Homes	3,292	5yrs	50
18 Oct 07	Thekwini 7	2,500	5yrs	55
14 Nov 07	Private Residential Mortgages	1,590	5yrs	55
26 Nov 07	Green House	1,911	5yrs	60
26 Aug 08	Private Residential Mortgages	1,000	3 yrs	70
22 Oct 08	Sanlam Home Loans	970	1 yr	100
<b>BBB</b>				
20 Aug 07	ABSA Homes	3,292	5yrs	215
18 Oct 07	Thekwini 7	2,500	5yrs	220
14 Nov 07	Private Mortgages	1,590	5yrs	200
26 Nov 07	Green House	1,911	5yrs	200
26 Aug 08	Private Residential Mortgages	1,000	3 yrs	300

Sources: BESA, Standard Bank Group

## International comparisons

### Shadow Mortgage Credit in the UK



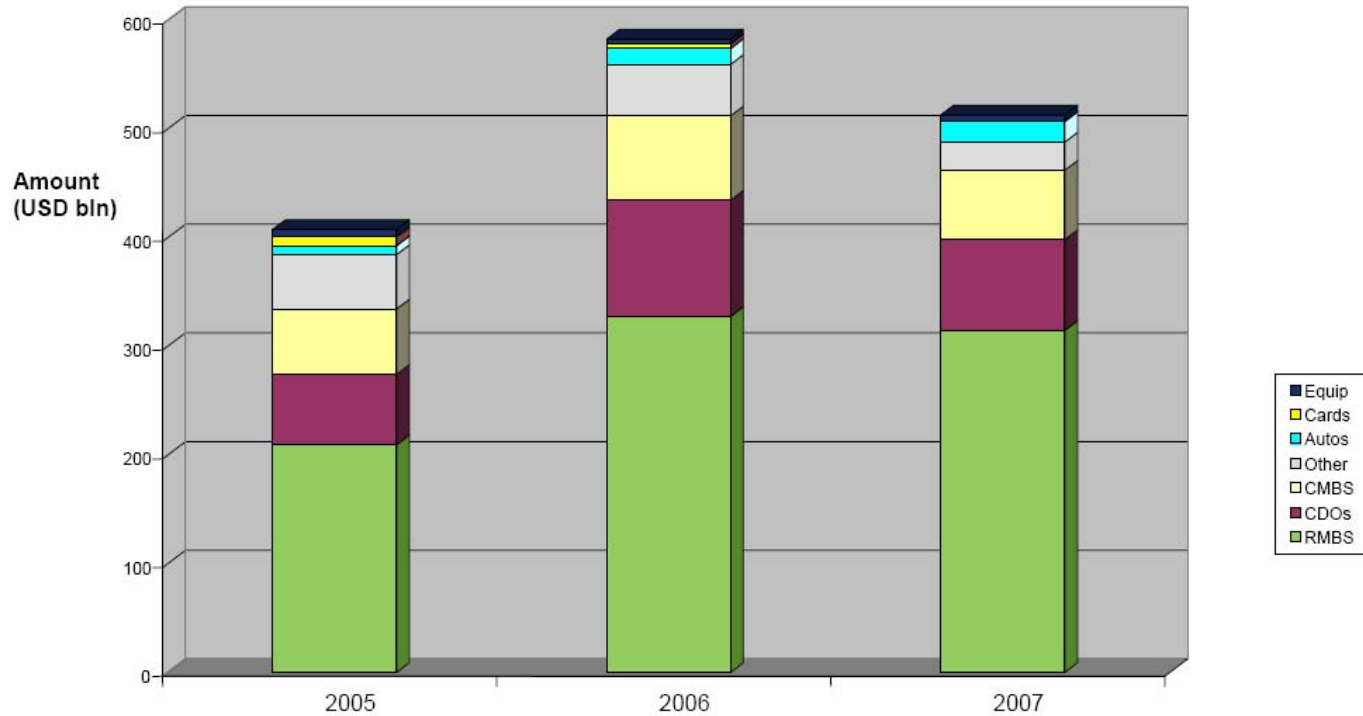
Source: Bank of England, DB Global Market Research

- Since 2003 UK banks increasingly embraced RMBS off-balance sheet financing
- Non-bank mortgage lenders proliferated due to securitisation market liquidity
- This led to a large “shadow mortgage credit” system being developed in the UK
- Unlike bank balance sheet lending, lending financed by securitisation was largely unconstrained in terms of capital
- By late 2006, 1 in 3 UK mortgages was funded outside the regulated capital base

Source: Deutsche Bank Global Markets Research

# International comparisons

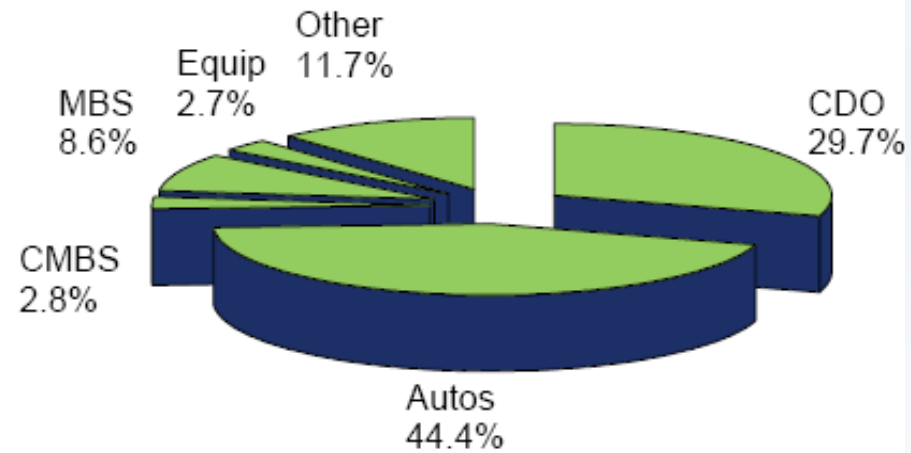
### European issuance for last three years



Source: Structured Finance Monitor

## International comparisons

2008 Q3 public issuance by sector



Source: Structured Finance Monitor