

The Business of Housing Finance




Managing Mortgage Insurance Risk

Presentation by:

Ethel Matenge-Sebesho
Home Finance Guarantors Africa

Willem van Emmenis
Home Loan Guarantee Company

Background


-  Home Loan Guarantee Company (HLGC), a South African based non-profit organisation, has for the past 17 years successfully facilitated housing finance to lower income South Africans through provision of guarantees to lenders.
-  The company has to date provided guarantees for home loans exceeding R3 billion in the lower income segment.
-  Guarantees include cover as a result of HIV/Aids related illness

Background (cont)

-  HLGC holds specialist short-term insurance licence and AA+ rating (ZA) from Fitch (London).
-  Available services include housing finance education and borrower default counselling.
-  An offering of services and guarantees into other parts of Africa is in the early stages, and will be through Home Finance Guarantors Africa (HFGA)

Home Loan Guarantee Company Products and Services

 Mortgage finance insurance

 Non-mortgage finance insurance




 Housing education programmes

Home Loan Guarantee Company Insurance Products and Services




Insurance products and services
are designed to provide
specialised solutions
and guidelines in the
housing finance process

Home Loan Guarantee Company Insurance Product Descriptions

Mortgage finance insurance




-  To cover mortgage loans
-  To cover loss as a result of non-payment of loan instalments including as a result of HIV/Aids related illness
-  Depending on cover required by lender, will pay out instalments or capital outstanding

Non-mortgage finance insurance






-  To cover loans that are not secured by house, e.g. could be cession of retirement benefits, savings, etc.
-  Level of cover would be determined by needs of lender
-  Term of cover would be flexible, but would be shorter than mortgage

Home Loan Guarantee Company Insurance Product Descriptions (cont)

HIV/Aids cover


-  Guarantee can be provided as part of wider cover or as stand alone guarantee
-  Intended to ensure borrowers affected by HIV/Aids do not lose their homes
-  If borrower is unable to pay home loan installments due to HIV/Aids related illness, these will be paid to lenders monthly in arrears if borrower is on a managed treatment programme


Home Loan Guarantee Company Housing Education Programmes

-  Housing Consumer Education
-  Borrower Education
-  Tenant Education
-  Customer Specific Education Programmes
-  Train the Trainer


Risk Factors for Home Loan Guarantee Company (HLGC)

 Lenders don't adhere to their own credit criteria

 Lenders to inform HLGC about arrears

 Lenders to allow HLGC officials to engage with defaulting borrowers before foreclosure process

 HIV/AIDS borrowers not paying instalments

 Claim assessment procedure

Risk Factors for Lenders

Collection of instalments


 Payroll deduction

 Stop orders

 Debit orders

Collection of arrears

 The longer it takes, the more difficult to recover the debt

 Failing to convince the borrowers to settle the whole debt by selling the house





 Risk of residual debt, in the event of sale in execution

Home Loan Guarantee Company





Active Risk Management

Production Agreement with Conditions

Lender's Credit Policy Document

-  Prudent credit scorecards
-  Acceptable collateral levels
-  Conservative affordability assessment
-  Evident collections capacity

Education






-  Lenders must provide borrower education, especially to first time home buyers
-  Borrowers must know their rights, responsibilities and obligations
-  With knowledge, the right housing decision can be made
-  Housing education reduces default risk

Home Loan Guarantee Company Active Risk Management (Cont)



Interaction with defaulting borrowers

Reasons for default




Non-payment

-  Loss of income
-  Retrenchments
-  Dismissal
-  Company Closure
-  Loss of spouse's income, divorce

House Product Delivery Problems




-  Shoddy workmanship
-  House not delivered on time

Inappropriate Lending Procedures




-  Incorrect income assessment
-  Over committing borrowers
-  Double counting debtors

Home Loan Guarantee Company Active Risk Management (Cont)

Political reasons






-  Group mobilisation due to defective units by developers
-  Community solidarity e.g. old people being evicted
-  Anti-eviction campaigns

HIV/AIDS

-  90% of borrowers have accepted cards and 80% have signed consent forms
-  Home testing being done
-  Program achieving its objectives





Home Finance Guarantors Africa

What it will do

-  Establishment of Home Finance Guarantors Africa (HFGA) to operate in some African countries
-  HFGA to facilitate :
 -  Increased access to housing finance and home-ownership in Africa, through guarantees to lenders
 -  Home-owners understanding of their rights, duties and responsibilities
 -  Management of HIV/Aids risk for affected home owners

Home Finance Guarantors Africa

What it will do (cont)

-  HFGA will establish appropriate African insurance funds
-  Level of insurance pool will be determined by risk to be covered in each country
-  HFGA will provide guarantees to the lenders that provide home loans and will include loss as result of HIV/Aids related illness, linked to treatment
-  Depending on country requirements and legislation HFGA will partner with existing local insurance companies or will provide insurance directly.

Home Finance Guarantors Africa The HIV/Aids Cover





- 🏠 The HIV/Aids related programme for Africa is being developed
- 🏠 The programme features will be similar to the South African one.
- 🏠 Upon development, the HIV/Aids programme for Africa will be available to all participating African countries

Risk Factors for Home Finance Guarantors Africa (HLGC)





- 🏠 Lack of Credit Information
 - 🏠 Establish local credit rating agencies
 - 🏠 Credit Information Bureaus
 - 🏠 Develop national identification system to improve market transparency (RSA & Botswana have ID systems)
- 🏠 Financial Literacy
 - 🏠 Consumer protection safeguards & awareness of consumer rights & responsibilities to be introduced
 - 🏠 Consider applying a levy on financial institutions to provide funding for consumer protection associations
 - 🏠 In addition to providing product information, lenders to also incorporate general borrower education
- 🏠 Lack of capital
 - 🏠 Develop local securities/equities markets
 - 🏠 Create 2nd tier capital markets
 - 🏠 Facilitate entry of foreign banks in local markets
- 🏠 High cost of Finance
 - 🏠 Investigate the causes of high cost of funds
 - 🏠 Financial Institutions to be required by legislation to be transparent about interest rate structures

Risk Factors for (HLGC) (cont)




Limited Range of Acceptable Collateral

-  Problems with titling systems & registries
-  Land policies in most countries still vest land ownership in governments
-  Introduce Housing Acts based on International best practices
-  Pension/Provident Funds to be used as collateral - Establish Acts (Kenya, RSA)

High Percentage of Populations Poor

-  Consider Housing Microfinance
-  Incremental Housing
-  Housing improvement loans
-  Social collateral

Terms of Lending

-  Short repayment periods (up to 15 years in some countries)
-  LTV's ratios too stringent
-  High interest rates