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Access to long-term capital: The Case of Ghana Home Loans

Executive Summary

Financing is one of the most important factors to guarantee sustainable housing production to bridge the affordable housing gap. Mortgage finance is said to be one of the instruments that can provide continuous and reliable finance for housing production and consumption. Nevertheless, access to this type of housing finance is limited in Africa.

In Ghana, the growing economy and an expanding middle class in the last few decades have enhanced the opportunities for mortgage lending. But, the short to medium macroeconomic shocks in the last few years have had a monumental impact on the growth of mortgage markets. Thus, the growth of the mortgage market has not been impressive, with the mortgage to GDP ratio at 0.4 percent.

Currently, only nine of Ghana's 35 commercial banks officially offer mortgage loans as a dedicated product – conventional mortgage loans, home improvement and home completion loans. Ghana Home Loans (GHL), now GHL Bank, is a dominant player and market leader in the industry, accounting for about 50 percent of the existing market share and exclusively providing mortgage financing to its clients. While the commercial banks have the advantage of raising short term funds from deposits, the non-bank financial institutions such as GHL must find funding from other sources using different strategies. This report seeks to gain deeper understanding of the experiences of GHL in raising long-term funding (both from Development Finance Institutions (DFIs) and capital markets) and provide an analysis of how mortgage institutions can raise medium to long-term funding from domestic capital markets to support their operations in Ghana.

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Across Africa, practitioners are grappling with the challenge of creating an enabled housing finance environment. While these challenges may seem insurmountable, there is a growing track record of novel solutions and initiatives, pioneered by policy makers, financiers, developers and households themselves, suggesting that there are new opportunities for making the housing finance sector work for the poor in Africa. This case study is part of a broader series that CAHF has commissioned in order to support professional development and inform a broader research and dialogue process. The case studies vary, addressing themes as diverse as housing microfinance, mortgage liquidity facilities, cement block-banking, home loan guarantees for the informally employed, and infrastructure financing, highlighting experiences from countries across the continent. We hope this series contributes to more precise and successful endeavours that realise the opportunities in this market.

The Centre for Affordable Housing Finance in Africa (CAHF) is a not-for-profit company with a vision for an enabled affordable housing finance system in countries throughout Africa, where governments, business, and advocates work together to provide a wide range of housing options accessible to all. CAHF's mission is to make Africa's housing finance markets work, with special attention on access to housing finance for the poor. We pursue this mission through the dissemination of research and market intelligence, supporting cross-sector collaborations and a market-based approach. The overall goal of our work is to see an increase of investment in affordable housing and housing finance throughout Africa: more players and better products, with a specific focus on the poor.

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Ghana's real estate and mortgage industry

Several constraints to the development of a mortgage market in Ghana have been observed, broadly reflecting macroeconomic and institutional challenges. These macroeconomic and institutional constraints are no less different from those that affected the mortgage market over two decades ago. Affordability problems resulting from macroeconomic challenges such as; high and volatile inflation, high interest rates, excessive exchange rate movements, low income levels and declining real incomes, lack of long-term loanable funds and repayment culture, are particularly notable in the extant literature. Institutional factors including weak property rights and foreclosure laws, inefficient land titling and registration system, substandard housing, wide spread slums and cultural aversion to debt have also been observed.

Macroeconomic factors

Fiscal discipline has historically been a major challenge for Ghana. Over the last five years, the government has formulated tighter fiscal policies with the aim of stabilising the economy and managing inflation. Improved fiscal performance between 2009 and 2011 resulted in a decline in inflation rates from 13.1 percent in 2009 to single-digit levels of 7.1 percent in 2012. Inflation rates have however risen over the last few years from 7.1 percent recorded in 2012 to 17.7 percent at the end of 2016 due to fiscal pressures and currency depreciation, as well as fuel and utility price hikes. Currently, the main areas that pose a challenge to medium term fiscal policy, according to the Third Review of its IMF Extended Credit Facility programme in 2016, include ensuring public debt sustainability and addressing wages and interest payments while ensuring government borrowing does not crowd out investment and management of public investment.

Mortgage finance market development

Historically, an unfavourable regulatory environment for mortgage lending has constrained the development of the mortgage market. There are at least three relevant laws – Home Mortgage Finance Act, 2008 (Act 766); Mortgages Act, 1972 (N.R.C.D. 96); and Borrowers and Lenders Act, 2008 (Act 773) – that regulate the establishment and operation of the mortgage market in Ghana. Institutional reforms via Act 766 have strengthened the legal and regulatory regime for mortgage finance.

However, the foreclosure process is far from efficient because of the frustrations lenders go through in the hands of both defaulting borrowers and the inefficient judicial system. The Credit Reporting Act, 2007, (Act 726) was also passed to improve credit allocation efficiency through the sharing of information among financial institutions to mitigate adverse selection and moral hazard risks in lending. Three private credit bureaus have emerged as a result. Today, millions of Ghana's adult population have credit scores due to the screening efforts of the three CRBs: XDS Data Credit Referencing Bureau, Hudson Price Credit Bureau and Dun and Bradstreet Credit Bureau Limited.

The OPIC model: Leveraging strategic partnerships

The bridging finance facility provided by Stanbic Bank played an important role in aiding GHL to access funding from OPIC. The instrumentality of strategic partnerships with already-established financial institutions (corporate and DFIs), (in this case the role of Stanbic Bank) is certainly a factor to be considered.

In addition, collaboration with credible foreign institutional investors that are well-known and active in the investment markets especially in Africa have also helped GHL to raise long-term funding. For instance, the International Finance Corporation (IFC) invested in GHL because some of its partners have had earlier engagements with GHL and these increased IFC's confidence in the operations of the mortgage institution.

Diaspora client base as a currency risk mitigation measure

The practice of lending funds acquired in foreign exchange has both positive and negative outcomes. In most cases, the foreign currency fluctuations are a function of the business practices in the economy. Sometimes the fluctuation is a direct response to government interference in the foreign exchange market.

GHL and the US$100 Million Bond Experience

GHL has started floating bonds in the Ghanaian market to diversify their funding sources by raising long-term funds from the capital market. The Ghana Securities and Exchange Commission (SEC) approved for GHL to issue two tranches of US$1 million and the cedi equivalent of US$4 million respectively. While the second tranche appears to have performed relatively well compared to the first tranche, the general performance of the bond was satisfactory, with a lower than forecasted uptake. Some financial experts have attributed the results of the bond sale to poor timing, arguing that the bonds were issued at a time when the economic forces of supply and demand were affected by the interest rates and high Treasury bill rates. T-bills and other investments were returning more (about 25 percent) within a short time (91 days or 182 days) compared to 8 percent return rate from GHL's note programme.

It is worth noting that although private pension funds have expressed an interest in the GHLS medium term note program, their ultimate participation was less than expected, perhaps due to the perceived risks associated with mortgage financing. Ghana's pension regulations have enabled pension schemes to direct a portion of pension funds (tier 2 & 3) to mortgage markets. However, these regulations appear restrictive, perhaps as a cautionary measure towards safeguarding pensioners' income. This is evidenced in section 82(7) of the Securities Industry Act, 2016 (Act 929), which states that "a scheme shall not invest more than 10 percent of its value in any type of real estate including buildings or interests in real estate except in the shares of real estate companies." The National Pensions Regulatory Authority also has investment limits imposed on pension funds. For example, a pension fund can invest a maximum of 5 percent of its assets in eligible bonds, Real Estate Investment Trust (REIT), Mortgage Backed Securities (MBS) and debentures of any corporate entity. It would seem that trustees and asset managers still perceive real estate investments as unsound or high-risk investments.

Despite the low performance of the GHL bond in 2016, GHL appears very positive towards raising funds from the capital market. The mortgage institution is particularly encouraged by the success rate of Government of Ghana's 15 years local sovereign bond which raised GHC3.247 billion following some improvements in the macro economy which have resulted in lower interest rates and T-bill rates.

Operational challenges

One of the critical challenges that has limited the operations of GHL relates to the unstable macroeconomic environment especially due to the unstable and unpredictable currency. In a portfolio where 70 percent of borrowers earn local currency yet take loans denominated in dollar terms, fluctuations in the currency relative to other currencies (especially the US dollar) place more stress on the cedi earners.

Furthermore, supply side constraints have also affected the operations of the company, such as the limited supply of affordable houses within the ranges of the GHL target market.

In addition, the limitations of the capital market in Ghana pose another challenge to GHL. This phenomenon has led to GHL's over reliance on DFIs for long-term funding at very competitive rates, which often comes with some limitation on what GHL can do with the funds. In addition, the under-developed capital market does not lend itself to mechanisms that offer long-term funding through securitisation arrangements.

Lastly, the issue of title perfection continues to constrain the growth of GHL's mortgage portfolio as the company has been struggling to meet the title perfection ratio set by most of the funders. This is because of the processes for land title and mortgage deeds registration at the Lands Commission not being up to speed with what is needed for mortgage operations.

Opportunities and recommendations

A major difference between the levels of success of GHL and HFC bond issuances is the listing status of their bonds and the companies respectively. Listing of a bond aside improving transparency and accountability also enhances liquidity position and improves the relative risk. Therefore, the listing of GHL's bonds may improve the success of its future bond issuance.

Secondly, section 82(7) of the Securities Industry Act, 2016 (Act 929) restricts the investments of investment firms and pension funds in real estate, particularly direct real estate. Nonetheless, REITs are companies that manage a portfolio of real estate to earn profits for shareholders, and their special tax status means that they do not pay corporate tax on the profits of their rental business. However, REITs need to comply with conditions set out in tax law. GHL may consider researching how the establishment of a listed REIT as a subsidiary could overcome the regulatory restrictions and provide an alternative investment instrument to core investment assets such as stocks and bonds on the Ghana Stock Exchange for pension funds.

Thirdly, GHL should consider other innovative forms of raising mortgage finance including the establishment of a Mortgage Liquidity Facility as it pertains in other countries. It is also possible for GHL to develop backward linkages by partnering with developers of affordable housing units through construction finance schemes.

In addition, with its new status as a bank, GHL could leverage on its status to raise more cedi-denominated long-term debt instruments from pension institutions, insurance companies and high net worth individuals.

Lastly, policy-makers would need to focus on stabilising the macro-economic environment to create the necessary conditions for long-term lending, because the success of a housing finance market largely hinges on the performance of the macro economy. Prudent management of the economy will create greater opportunities for developing an effective mortgage market in the country and improve investor confidence in the operations of the capital market.

1. Introduction

Financing housing in Africa has consistently been problematic given the monstrous challenges associated with the requirements for housing finance infrastructure and the enabling environment for financial sector development. Given that, finance is one of the critical factors that can ensure that there is sustainable housing production to bridge the gap between affordable housing that is inadequate and adequate housing that is unaffordable[1] – it is imperative to ensure continuous flow of capital in this sector. Mortgage finance is said to be one of the instruments that can provide continuous and reliable finance supporting the production and consumption of housing. However, access to this type of housing finance is severely limited in Africa. The mortgage market in Africa is small compared to other regions with only five countries having a mortgage to GDP ratio above 10 percent.[2] Access to capital, in particular long-term funding to support mortgage, is a function of both regulatory and policy environments, as well as national and international financial systems and economic development, presenting a complex milieu of variables to deal with. Given the significant variations in each of these variables, different countries produce different prospects and outcomes for access to long-term funding in support of mortgage operations.

As part of the effort to understand the constraints and opportunities in accessing long-term funding generally, this case study examines these issues in the context of the specific experience of the Ghana Home Loans (GHL), a mortgage company in Ghana.*

2. Background

In Ghana, there have been significant improvements in the demand-side challenges. The growing economy and the expansion of the middle class in the last few decades have enhanced the opportunities for mortgage lending. But, the short to medium macroeconomic shocks in the last few years have had a monumental impact on the growth of mortgage markets. Thus, the growth of the mortgage market has not been impressive as the mortgage to GDP ratio is very small, at 0.4 percent. High interest rates, foreign exchange instability and inflation have increased the risk factors for long-term lending. As a result, many financial institutions in Ghana and elsewhere in Africa have developed a high affinity for short-term investments and lending in order to manage these risk factors. Yet, some financial institutions in Ghana continue to offer mortgage products with some levels of success. Currently, only nine[3] of Ghana's 35 commercial banks officially offer mortgage loans as a dedicated product – conventional mortgage loans, home improvement and home completion loans. Estimated market value is about US$180 million as at 2013, representing an increase of US$50.78 over the 2008 figure – US$126.22.[4] In addition to these, GHL, a non-bank financial institution, also plays a major role in mortgage financing in the country. While the banks have the advantage of raising short terms funds from deposits, the non-bank financial institutions such as GHL have to find funding from other sources.

The major players in the mortgage market in Ghana, Home Finance Company (HFC) Bank and Ghana Home Loans, have been raising funding from various sources using different strategies. Success in raising some long-term capital to finance their mortgage lending activities has been varied. HFC Bank with initial support from the government, has enjoyed some success in raising long-term funding from domestic sources especially through pension funds, leveraging medium-term funds from deposits and also loans from the capital markets. However, GHL have had to find funding mainly from DFIs and to a very limited extent from international capital markets. Recently GHL's effort to raise long-term capital worth US$100 million through the Ghana Fixed Income Market (GFIM) was not very impressive. Generally, GHL have had limited success in raising long-term funding from domestic capital markets.

Therefore, this case study seeks to gain deeper understanding of the experiences of GHL in raising long-term funding both from DFIs and capital markets, and to provide analysis of how mortgage institutions can raise medium to long-term funding from domestic capital markets to support their operation in Ghana.

Importantly, GHL applied for and was granted a provisional banking license in 2016. This changed when GHL completed all the required conditions and was consequently given the final license to operate as a universal bank. The implications of this transition will be further clarified at the conclusion of this case study.

**Various limitations in data collection affect the analysis of GHL. It is very difficult to access the relevant and current information on the housing finance sector (in the form of sector performance analysis) from the regulators, namely the Bank of Ghana, and Securities and Exchange Commission. For the former, it was in part due to limited focus on mortgage operations within the larger banking and finance industry. The most recent sector report by the Bank of Ghana was produced in 2007 and enquiries to determine the requisite personnel to follow up on that report for updates were unsuccessful.*

The research could not benefit from a wide range of sources due to the limited spectrum of actors and market. Due to the absence of triangulation, the team was sometimes limited in validating the findings from the data collected. The overall levels of expertise in the field is limited, in quantum, to past and current staff working or worked with either HFC or GHL. Mortgage activities by other institutions were not substantial to create an informed groundswell of practitioners capable of supporting the research and the sector.

Some of the key challenges also included securing interviews with regulators, DFIs, GHL senior management. In addition, GHL was undergoing the change from a mortgage bank to a commercial bank.

1 UN-Habitat (2005).
2 CAHF (2016).
3 Access Bank Ghana, Bank of Baroda, Ecobank Ghana, HFC Bank Ghana, Fidelity Bank, CAL Bank, Stanbic Bank Ghana, First National Bank Ghana and United Bank for Africa Ghana.
4 Adu (2013).

It is hoped that this new status will allow GHL to diversify its sources of funding and bring in the synergies that go with commercial banking and mortgage operations. For instance, it is believed that universal banking helps lower the cost of operations through current and savings accounts. This makes the weighted cost of funds lower. Banks are better positioned to attract DFI funding than non-bank institution because of better regulation and more stable funding position.

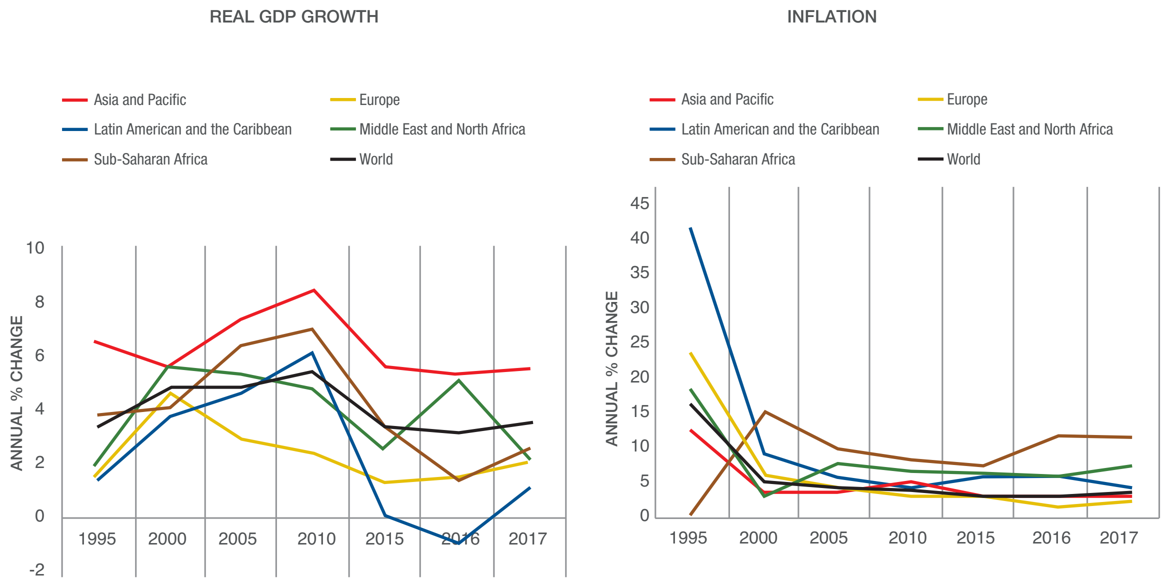
3. Financing of mortgages in Africa

Mortgage institutions' access to long-term financing can be limited by two principal factors: a) country characteristics; and b) the institution's characteristics and evidence.[5] The country's characteristics and evidence concern macroeconomic and political risks that can raise the cost of long-term funding and affect the development of the financial system with regard to banks and capital markets. Such risks can further lead to a weak contractual environment, poor information sharing, and weak collateral registries of movable assets. With regard to institution's characteristics and evidence, issues concerning the size of the institution, good corporate governance quality, and a soundness of legal institutions can limit the institution's ability to attract long-term financing.

Thus, the country-specific characteristics and evidence are defined by its economic growth and financial sophistication. In Sub-Saharan Africa (SSA), there has been significant improvement in economic growth. Governments undertook the strengthening of fiscal policies, inflation containment, liberalisation of forex exchange control and unification of exchanges as well as building foreign reserves in order to contain external shocks.[6] These measures, while helping to mitigate the risks in long-term lending, have impacted positively on economic growth in the continent. Investment analysts such as McKinsey and the European Investment Bank have pointed out that Africa, especially SSA, has been among the fast-growing economies in the world since the early 1990s.[7] Accelerated economic growth and ongoing private sector investments, particularly in infrastructure, are opening up access to financial services including both wholesale long-term and short-term funding. Dalberg Global Development Advisors have reiterated that private sector investment is associated with strong economic growth.[8] These factors have facilitated the reduction in inflation with most SSA countries reporting single-digit inflation figures. See Figure 1.

However, with regard to financial sophistication, it varies from country to country especially in SSA. Apart from South Africa and Mauritius, most African countries have weak and shallow financial systems that offer basic financial services.[9] These shallow financial systems are unable to attract private capital, as median private credit-to-GDP was only 18 percent below countries outside of Sub-Saharan African countries that recorded 34 percent.[10] A more significant impact of this shallow financial system is that there is a low level of financial intermediation across Africa with a high level of liquidity, mostly on stable deposit funding rather than wholesale funding.

Figure 1: SSA: Growth and inflation (1990-2016)



Source: IMF (2017).

5 World Bank Group (2015).
6 ibid
7 European Investment Bank, 2015 and McKinsey & Company (2012).
8 Dalberg Global Development Advisors (2010).
9 Beck, T., et al. (2014). Making cross-border banking work for Africa, GIZ Eschborn, Germany.
10 ibid

In addition to the factors highlighted above, the following prerequisites are crucial to raising long-term financing for mortgages in Africa:[11]

- Political stability;
- Legal and institutional reforms;
- Strength of the credit information environment;
- Policies that signal the political will to address the issue of corruption;
- Policies contributing to the development of the stock market;
- Policies related to the development of macroeconomic stability and the corporate bond market;
- Policies to engender market competitiveness; and
- Policies contributing to access to international markets.

3.1 Experiences of raising long-term funding for mortgages in Africa

Mortgage lenders in Africa have traditionally depended on short-term deposits and capital markets to finance long-term mortgages.[12] However, raising funds through this medium exposes lenders to liquidity risk as it is practically difficult to use short-term deposits to finance long-term mortgages. To minimize such risks, mortgage institutions resort to the capital market to access long-term funding for mortgages. In the handful of African countries where there are active capital markets such as South Africa, Morocco and Egypt, mortgage lenders are able to raise long-term funding through the issuance of bonds.[13] For example, Housing Finance, one of Kenyan's leading mortgage lenders, successfully floated bonds worth US$120 million to raise long-term financing for mortgage. However, this funding model has its problems as mortgage institutions need to be well established before this can be done in order to facilitate the utilisation of this funding source.

Other countries have attempted to solve this problem by establishing mortgage liquidity facilities (MLF) as a way of providing long-term capital for mortgage institutions.[14] MLF are refinancing companies that act as intermediaries between primary mortgage lenders and the bond market, with the objective of providing long-term funds at better rates and under better terms and conditions that primary mortgage lenders might not be able to obtain if acting alone. The Egyptian Mortgage Refinance Company was the first to be established, followed by the Tanzania Mortgage Refinance Company among others.[15] While variations exist in different countries, the model essentially allows for the liquidity facility to purchase mortgages from mortgage lenders. This gives them the liquidity to fund further mortgages. In addition to reducing the costs of capital, access to funding from the liquidity facility also increases the loan tenor, which in turn makes the mortgages much more affordable to borrowers. It is for these reasons that MLFs are well-suited for countries with small mortgage markets because of their catalytic role.[16]

Another recent development in the mortgage finance markets that has emerged has been the introduction of Real Estate Investment Trust (REITs)[17], perhaps the most significant of these regulatory improvements. REITs create a vehicle that investors understand and can trust, aggregating diverse sources of funding from international and institutional investors through to households, and targeting them into a portfolio that extends beyond the limitations of individual projects. REITs are new in Africa – having developed through the promulgation of legislation and issuance of regulations only in the past four years, in South Africa, Nigeria, Tanzania, Kenya, Ghana, Morocco, and Zimbabwe. Although these were originally used for retail and commercial real estate, in recent times, residential REITs are now emerging.

Furthermore, pension funds have also gained attention as long-term funding for mortgages by providing a channel to boost the supply of housing finance either through investment in housing development, or using debt and equity structure in allocating its assets.[18] However, regulatory restriction in most countries limit the ability of trustees and managers to invest their long-term funds with mortgage institutions. Even in countries where regulatory space exists to direct a portion of pension funds to mortgage markets, trustees and asset managers still perceive these opportunities as unsound or a high risk investment.[19]

Mortgage markets across Africa are tiny by international standards, but this is part of the attraction. It is in these growing markets that the real scale of opportunity exists, waiting to be cracked. The next section discusses the opportunities and challenges that characterise the mortgage market in Africa, particularly for accessing the wholesale financing for mortgages.

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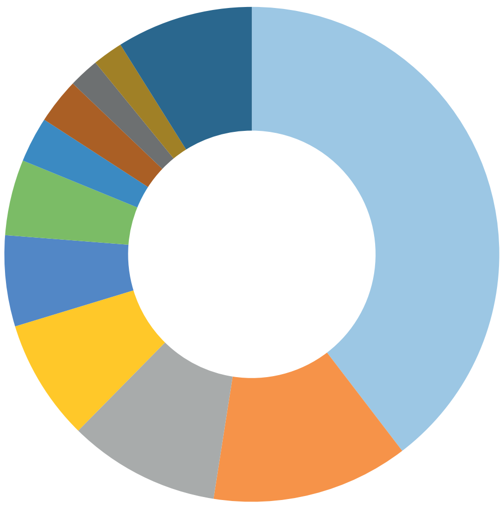
[11] World Bank Group (2015).
[12] AMCHUD (2014).
[13] CAHF (2016a).
[14] CAHF (2016b).
[15] ibid
[16] Hassler (2011).
[17] CAHF (2017).
[18] Short et, al. (2009).
[19] Donkor-Hyiaman and Owusu-Manu (2016).

3.2 Opportunities and challenges for accessing long-term funding in Africa

The continent is witnessing increasing political and macroeconomic stability. This is a necessary condition for long-term finance to thrive because it underscores the ability of economic agents to predict risks and returns associated with this type of finance. This relative stability in Africa is attracting more long-term financers, particularly Development Finance Institutions (DFI) that have contributed significantly in providing long-term financing for mortgage development in the region.[20] DFIs are specialised financial institutions that invest in developing countries with the primary objective of occupying an intermediary space between public aid and private investment and facilitating international capital flows.[21] Several of these DFIs operating in the region include: International Finance Corporation (IFC), the Overseas Private Investment Corporation (OPIC), the CDC Group plc (CDC), as well as other European DFIs such as the European Investment Bank (EIB), Promotion et Participation pour la Coopération Économique (PROPARCO), Deutsche Investitions- und Entwicklungsgesellschaft (DEG), Netherlands Development Finance Company (FMO), Swefund, Norfund, Obvium and a few others. Their practices in the real estate sector are primarily concerned with providing wholesale financing for mortgages in the respective countries in the continent. This is an encouraging trend, reflecting the increased interest in Africa amongst foreign investors and fund managers and also the improved political and economic stability on the continent as a whole. According to the Africa Investment Report, foreign direct investment in real estate displaced coal, oil and gas, as the top sector by capital investment in 2016. The level of funding by international DFIs has increased by a significant 14 percent from 13 percent in 2015, representing a market share of USS$36.5 billion of announced foreign direct investment in the region.[22] Figure 2 shows the total investment of DFIs in the Africa continent and the respective sectors.

Figure 2: Sector breakdown of FDI in Africa by Capital Investment (2016)



Sector	Market Share (%)	Capex (US$bn)
Real estate	40%	36,50
Coal, oil & natural gas	13%	12,40
Renewable energy	10%	8,90
Transportation	8%	7,20
Warehousing & storage	6%	5,20
Chemicals	5%	4,70
Minerals	3%	3,20
Communications	3%	2,30
Automotive	2%	2,10
Metals	2%	1,60
Other	9%	8,20

Source: FDI Markets (2016).

Thus, the data showing growth in offshore investments demonstrates the counterintuitive reality of the DFIs. The sectoral focus of DFIs toward the real estate sector can be explained by several reasons. First, mortgage financing and infrastructure investments in general tend to be on the large scale and, by their nature, are seldom funded domestically. Second, compared to other sectors such as agriculture or industry which could easily be catered for by the private sector given the smaller scale and consequently lower barriers to entry, investments in the real estate sector are often considered too risky for private capital. Besides, DFI investments may be increasing despite inadequate sector maturity due to: (1) the different regimes of risk assessments that the DFIs may be using; (2) the substantial downturn in the traditional markets in Europe and America; and (3) the quality of guarantees including fungibility, among others.

However, the weak regulatory regimes and policies that reduce information asymmetries (such as reforms in credit bureaus and collateral registries[23]) continue to affect the availability and access to long-term finance in the continent. For instance, land tenure regimes and the ability to perfect title to land continues to be a hindrance to mortgage markets development in the continent.[24]

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[20] http://www.riscura.com/brightafrica/africas-development-finance-institutions/dfi-practices/
[21] ibid
[22] fDI (2017).
[23] CAHF (2016a).
[24] UN-Habitat (2016).

4. Ghana's real estate and mortgage industry

The formal real estate market in Ghana is nascent with most of the real estate developers focusing on high-end residential real estate. Ghana Real Estate Developers Association (GREDA) constructs approximately 10 percent of houses.[25] That means that individuals deliver the majority of housing units (90 percent). In this regard, the most common method of residential building is incremental building, where owners become self-developers and rely on small craftsmen and tradesmen to build their own units.[26] Construction is executed gradually, limited by the available sources of funds to owners. This trend has implications for the quantity and quality of the dwellings. The informal construction industry is not capable of meeting demand and providing large quantities of houses, especially in urban centres.

The 2010 Population and Housing Census records the total stock of houses for the country as 3,392,745 about half (57.7 percent) of which are in the rural areas. The National Housing Policy indicates that the national housing deficit is in excess of 500,000 units with annual requirements of 120,000 units.[27] However, only about 33 percent is actually supplied. These figures indicate that the annual supply of housing units in Ghana falls far short of demand with between 65 percent and 70 percent of the national requirement remaining unsatisfied. The rising housing deficit may be due to limited housing investment, low income levels and the inefficient and underdeveloped housing finance regime in the country.

In the early 1990s, the government liberalized the housing finance market and improved the regulatory environment to allow for increased private sector participation. Boamah (2011) notes that the liberalization was intended to create an efficient housing finance system and to encourage increased housing investment and consumption in Ghana.[28] However, the improved regulation and liberalization did not lead to the expected investment in housing nor an improvement in the housing finance system.

Growth in the housing sector and the lack of affordability has necessitated the increase in mortgage products. Mortgage debt to GDP remains insignificant compared to other developed economies. Recorded at 0.37 percent in 2007, it fell to 0.32 percent in 2008, 0.3 percent in 2009, and 0.25 percent in 2010, compared to an average of 13 percent across Africa between 2004 and 2009. In part, this was due to the global financial crisis and the prevalence of borrowers from the Diaspora in Ghana's mortgage book. The two key constraints to mortgage market growth are high interest rates and a limited affordable housing supply. Despite these challenges, mortgage lending is relatively well established in Ghana.[29]

Several constraints to the development of a mortgage market in Ghana have been observed, broadly reflecting macroeconomic and institutional challenges. These macroeconomic and institutional constraints are no less different from those that affected the mortgage market over two decades ago. Affordability problems resulting from macroeconomic challenges, such as: high and volatile inflation, high interest rates, excessive exchange rate movements, low incomes levels and declining real incomes, lack of long-term loanable funds and repayment culture[30], are particularly notable in the extant literature. Institutional factors including weak property rights and foreclosure laws, inefficient land titling and registration system, substandard housing, wide spread slums and cultural aversion to debt[31] have also been observed.

25 Ayitey et al., (2010).
26 The World Bank Group (1993).
27 Ministry of Water Resources Works and Housing (2015).
28 Boamah (2011).
29 Another way to view the relatively low levels of mortgage-to-GDP ratio is to see it as a potential opportunity for growth of the sector. African Governments could pursue growth of the mortgage sector as a development strategy.
30 Owusu-Manu et al. (2015). See also Teye et al. (2015) and; Quansah and Debrah (2015).
31 Ansah (1999); Karley (2002); Akuffo (2005); Quansah and Debrah (2015).

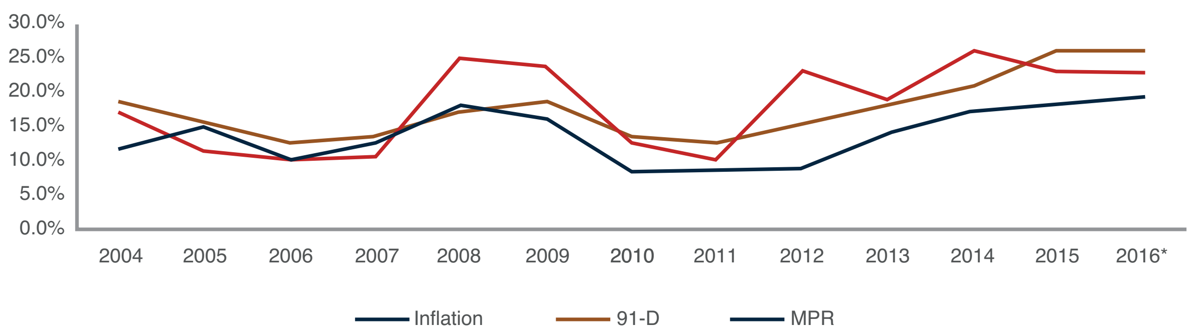
4.1 Macroeconomic factors

Historically, Ghana's economy has recorded an average annual real GDP growth rate of 6.8 percent over the last six years. This growth peaked at 14.4 percent in 2011, driven by the commencement of crude oil production. The country has since been recording declining growth rates: 9.3 percent in 2012, 7.3 percent in 2013, 4.0 percent in 2014, 3.8 percent in 2015 and 3.5 percent in 2016. The construction and real estate sector has grown consistently over the past five years, up more than 70 percent since 2010 and employing around 320,000 people. The sector accounted for a 14.8 percent share of GDP in 2015.

Fiscal discipline has historically been a major challenge for Ghana. Over the last five years, the government has formulated tighter fiscal policies with the aim of stabilising the economy and managing inflation. Improved fiscal performance between 2009 and 2011 resulted in a decline in inflation rates from 13.1 percent in 2009 to single-digit levels of 7.1 percent in 2012. Inflation rates have however risen over the last few years from 7.1 percent recorded in 2012 to 17.7 percent at the end of 2016 due to fiscal pressures and currency depreciation, as well as fuel and utility price hikes. Currently, the main areas that pose a challenge to medium term fiscal policy (according to the Third Review of its IMF Extended Credit Facility programme[32] in 2016) include ensuring public debt sustainability and addressing wages and interest payments while ensuring government borrowing does not crowd out investment and management of public investment.

Some success was recorded in 2016 compared to previous years. The cedi remained relatively stable amid the progress made in the fiscal programme, which supported the tight monetary policy stance of the Bank of Ghana (BoG). For instance, inflation fell from a peak of 19.2 percent in April to 15.8 percent in October, which is attributed to lower growth, fiscal consolidation, relative stability of the cedi, tighter credit conditions, and the improved electricity situation in the country. Actual inflation was above the central bank's medium-term target of 8 percent +/-2 percent. Gross international reserves nevertheless increased from US$5.83 billion in January 2016 to US$6.16 billion by the end of December. The average inflation rate in the last decade has been around 12.3 percent as presented in Figure 3. The cedi however depreciated by 4.6 percent and 2.4 percent against the US dollar and euro respectively but appreciated against the pound sterling (GBP) by 13.7 percent by end November 2016.

Figure 3: Inflation, Monetary Policy Rate (MPR) and 91-day Treasury Bill [+GDP]



Source: International Monetary Fund, World Economic Outlook (2017).

The monetary policy rate (MPR) has seen a gradual increase over the past five years, from 12.5 percent in November 2011 to 26.0 percent in December 2015. The policy rate was maintained in March 2016 to help manage the rising inflation and to drive up the value of the cedi. It was further reduced marginally to 25.5 percent from 26 percent towards the end of November 2016 and further to 21 percent in September 2017. Rates on short-term bills have been on the decline since early 2015 whereas rates on medium-term securities were relatively stable in the first half of 2015 but rose marginally in the second half of the year. The trend of falling rates on short-term securities is reflective of government's strategy to roll short-term debt into longer dated maturities as part of its Medium-Term Debt Management Strategy (MDTS).[33]

[32] The Extended Credit Facility (ECF) provides financial assistance to countries with protracted balance of payments problems. The ECF was created under the Poverty Reduction and Growth Trust (PRGT) as part of a broader reform to make the Fund's financial support more flexible and better tailored to the diverse needs of low-income countries (LICs), including in times of crisis. The ECF is the Fund's main tool for providing medium-term support to LICs. The ECF supports countries' economic programs aimed at moving toward a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth. The ECF may also help catalyze additional foreign aid.

[33] Bank of Ghana (2016).

4.2 Mortgage finance market development

Historically, the unfavourable regulatory environment for mortgage lending has constrained the development of the mortgage market. There are at least three relevant laws – Home Mortgage Finance Act, 2008 (Act 766); Mortgages Act, 1972 (N.R.C.D. 96); and Borrowers and Lenders Act, 2008 (Act 773) – that regulate the establishment and operation of the mortgage market in Ghana. Institutional reforms via Act 766 have strengthened the legal and regulatory regime for mortgage finance. Its particular relevance lies in its provision for non-judicial foreclosure, which serves as a cure to contract enforcement challenges that characterised the years between 1972 and 2008.[34] However, the foreclosure process is far from efficient because of the frustrations lenders go through in the hands of both defaulting borrowers and the inefficient judicial system.[35] The Credit Reporting Act, 2007, (Act 726) was also passed to improve credit allocation efficiency through the sharing of information among financial institutions to mitigate adverse selection and moral hazard risks in lending. Three private credit bureaus have emerged as a result. Today, millions of Ghana's adult population have credit scores due to the screening efforts of those three CRBs: XDS Data Credit Referencing Bureau, Hudson Price Credit Bureau and Dun and Bradstreet Credit Bureau Limited. The provision of credit screening has further incentivised borrowers to meet loan obligations due to the threat of lender denial based on past delinquencies or defaults. Even though there are tangible results from the CRBs, much remains to be done on credit screening as the trio or ratings institutions cover only an estimated 10 percent of Ghana's adults.[36] In addition, the Land Administration Project (LAP) has also advanced in terms of reducing the turn-around time for processing land documents, although slowly in the digitization of the title registration process and follow-up procedures.[37]

4.3 Mortgage market outlook

Ghana has experienced a profound expansion in mortgage financing in the last decade. In 2006, Home Finance Company Bank (HFC Bank) was the only mortgage provider in the country. Currently, only nine[38] of Ghana's 35 commercial banks officially offer mortgage loans as a dedicated product – conventional mortgage loans, home improvement and home completion loans. Estimated market value is about US$180 million as at 2013, representing an increase of US$50.78 million over the 2008 figure of US$126.22 million.[39] Consistently, the mortgage market has over the years contributed less than one percent to gross domestic product (GDP)[40], and less than 10 percent of housing finance.[41] GHL, a non-bank finance institution is currently the dominant player and market leader in the industry providing exclusively mortgage financing to its clients. GHL accounts for about 50 percent of the existing market share as presented in Table 1.

Table 1: Mortgage market players and market share (2008 and 2013)

Mortgage Institutions	Mortgage Portfolio (million US$)		Market Share (%)	
	2008	2013	2008	2013
Ghana Home Loans	34.1	84	27.02	47
HFC Bank	37.9	47	30.03	27
Fidelity Bank	14.9	24	11.81	14
Barclays Bank	31.5	12	24.96	7
GCB	6.6	4	5.23	2
SG-SSB	1.2	-	0.95	-
Amal Bank	0.017	-	0.01	-
Cal	-	6	-	3
Total	**126.22**	**177**	**100**	**100**

Sources: Bank of Ghana (2008), Akuffo (2009), Donkor-Hyiaman (2011), *Ghana Home Loans (2013).

The constrained macroeconomic, institutional and regulatory environment has limited long-term capital raising historically. Only a few established institutions such as the HFC Bank and more recently, the Ghana Home Loans Limited (now GHL Bank), have been successful at raising some long-term capital to finance their mortgage lending activities. Generally, Ghana's mortgage market has achieved significant progress due to improved regulations coupled with increased competition between intermediaries, and this can result in further development of opportunities and sector growth for housing finance. At present there are a variety of options for investors, developers, and policy-makers to promote a more effective mortgage market and consolidate inclusive housing finance development in a collaborative manner. It is evident there are financial and policy based opportunities to reduce risks and minimise high mortgage and microloan rates to promote inclusive access to housing finance.

[34] Donkor-Hyiaman and Ghartey (2017).
[35] Gavu and Adamu (2015).
[36] Kusi et, al. (2016).
[37] Ehwi and Asante (2016).
[38] Access Bank Ghana, Bank of Baroda, Ecobank Ghana, HFC Bank Ghana, Fidelity Bank, CAL Bank, Stanbic Bank Ghana, First National Bank Ghana and United Bank for Africa Ghana.
[39] Adu (2013).
[40] The low mortgage-to-GDP ratio recorded for the country could be under-representing the reality as borrowers are known to take loans, supposedly for other ventures but in reality, utilise them as housing loans, unbeknown to the lenders, an occurrence that could increase the mortgage-to-GDP ratio by a margin of five.
[41] Ayitey et al. (2011).

5. Raising long-term lending for mortgage financing: The case of Ghana Home Loans

To understand the implications of the macroeconomic and institutional environment on the business model of Ghana Home Loans and how mortgage institutions of this nature can effectively raise wholesale financing for mortgage lending in Africa, this section provides a case study based on the experiences of Ghana Home Loans, the leading mortgage provider in Ghana. The choice of Ghana Home Loans is largely attributed to, among other things, (i) the funding strategy of GHL as a non-bank financial institution; and (ii) its recent effort to raise long-term capital worth US$100 million through the Ghana Fixed Income Market (GFIM). Based on the experiences of GHL, this study ultimately aims to provide insight into the availability and accessibility of long-term funding for mortgage lending in Africa, including key challenges and recommendations for improving the capital funding for the mortgage market. The case study also seeks to establish whether particular regulations hinder or encourage players in the capital market to invest in the construction and mortgaging of affordable housing, with the aim of suggesting possible regulatory or policy reforms that incentivise such lending.*

5.1 Background

Ghana Home Loans was established in 2006 as a non-banking financial institution licensed under Provisional National Defence Council Law (PNDCL) 328 and supervised by the Bank of Ghana. It was granted a license to commence operations in June 2006 as the only focused mortgage finance institution in Ghana and subsequently commenced operations in September of the same year. Its founding funders were Standard Bank (South Africa), FMO (Netherlands), Broad Cove, and the three Ghanaian directors that promoted the company. Later International Finance Corporation (IFC) also came in 2008. Originally, the founders of GHL tried to emulate the model of the South African Home Loans but were constrained by the absence of a viable capital market in Ghana at the time, thus compelling resort to DFIs as an interim measure. The intention of GHL was to return to the local capital market whenever that became a viable option. Standard Bank (SA) as a shareholder of South African Home Loans became interested and this led to the participation of their in-country subsidiary, Stanbic Bank.

GHL is currently the only specialized residential mortgage finance institution in Ghana.[42] It remains the only institution dedicated to mortgage financing in Ghana with very few of its kind across Africa. GHL has become the market leader in Ghana with gross loan disbursements and commitments of over US$120 million from a humble beginning. In November 2006, Stanbic Bank (Ghana) provided short term bridging facilities culminating in the signing of a US$30 million loan agreement with OPIC. It was noted that the separation of the collateral provisioning by Stanbic and the management of the funds helped to ease the risks held by DFIs towards GHL.[43] By December 2006, the first US$1 million loans had been written and in June 2007 the first disbursement on the US$30 million loan was made. Subsequently, GHL has raised additional long-term finance capital from DFIs and impact investors such as the *Deutsche Investitions- und Entwicklungsgesellschaft* (DEG), Overseas Private Investment Corporation (OPIC), Proparco, Shelter Afrique, and ECOWAS Bank for Investment and Development (EBID).

In recent times, its debt capital stock has come from a GBP 5 million loan from the London-based Ghana International Bank and capital market debt instruments. The Securities and Exchange Commission (SEC) of Ghana in 2016 granted GHL approval to establish a Domestic Medium-Term Note Programme in the bid to improve its funding and liquidity position. The programme was expected to enable GHL to raise a total of US$100 million, or GHC 380 million from the domestic market. Its first issuance of mortgage-backed notes, offering a five-year tenor, an interest rate of eight percent and worth US$5 million is listed on the Ghana Fixed Income Market (GFIM).

**For details of the methodology for this case study, please contant CAHF.*

42 Ghana Home Loans had obtained a universal banking license from the central bank, Bank of Ghana, and was converting from a specialized mortgage institution to a commercial bank.
43 Source: GHL Management (during report validation meeting on 09-02-2018).

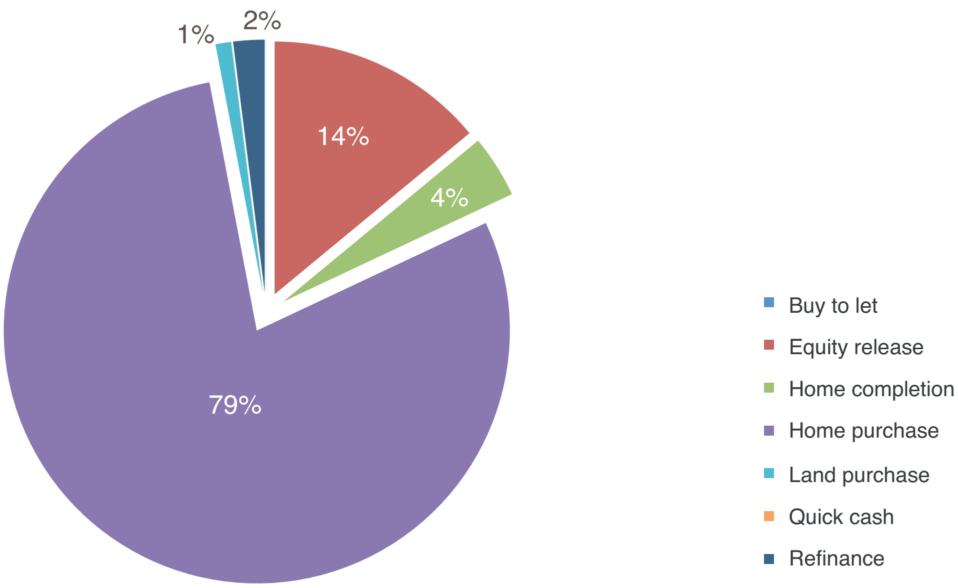
GHL is a full-service mortgage finance house (i.e. originates funds and service loans and retains them on its balance sheet). With the vision to make significant social, developmental and economic impact through the provision of mortgages, GHL focuses on lower to middle income bracket loans. It finances property that are priced between US$60,000 to US$80,000.[44] It offers an extensive range of products and services to both existing and prospective clients. The intent of this range of products and services is to offer clients competitive pricing, innovative products, professional advices and first-class customer services. It provides loans in US dollars due to lack of access to commercially viable long-term cedi facilities. Table 3 and Figure 4 show the products GHL provides and the size of their portfolio respectively.

Table 3: GHL product type

Product and types	Main products
Purchase Mortgage – First Time Buyer & Buy to Let	The first time buyer's mortgage serves the needs of applicants looking to buy their first home. Buy to Let mortgages are offered to applicants who already own a home but wish to buy investment property for the sole purpose of renting it out to tenants.
Home Owners Mortgage - Home Equity Release & Home Improvement	Home equity release mortgage is a product for applicants who wish to borrow on a long-term basis using their homes as collateral. Existing homeowners can apply for a mortgage facility to renovate or extend their property using a home improvement mortgage.
Construction Mortgage - Home Completion & Home Construction	The home completion mortgage facility is to help finance the completion of the homes of applicants. The home construction mortgage is a facility that help clients who have a plot of land and require financing to undertake the construction of their dream homes.
Land Purchase Mortgage	This mortgage allows applicants to acquire a plot of land with the support of GHL.

Source: Ghana Home Loans (2016).

Figure 4: GHL portfolio by product type



Source: Addo-Kuffour (2016).

5.2 Governance and operational structure

Like any other company, GHL has a Board of Directors that is responsible for all strategic direction, providing guidance for its growth and development. In line with good corporate governance and international best practices, the Board has sub-committees namely: Credit Risk and Asset Liability; Human Resource and Remuneration; and Audit and Compliance. The function of these sub-committees have resulted in the successful operations and management of the company. The Credit Risk and Asset Liability Committee ensures that there are good reviews and assessment of the integrity and adequacy of risk management; it also reviews and assesses the company's credit risk and operational risks as well as information technology. Further, this committee reviews and assesses the adequacy of the company's liquidity and funding requirements. Besides this, the HR and Remuneration Committee has been actively engaged in reviewing policies relating to remuneration of the board, management and staff. The Audit and Compliance Committee ensures that any findings of regulatory agencies and auditors observations are implemented and that the internal controls within the company are effectively followed.

[44] A US$60,000 mortgage would require a household to earn at least US$1,000 a month to be eligible for a mortgage loan.

5.2.1 GHL Operations

Since its inception, the company has raised a significant number of medium to long-term debt facilities to finance its mortgage operations. It has raised over US$120 million in long-term funding and this has enabled it to provide residential mortgages to the Ghanaian housing market. The company has strived to seize the opportunities in the mortgage industry in Ghana which is estimated to be in the region of US$2 billion[45] or 0.4 percent of GDP. It has performed credibly in its mortgage operations with a healthy portfolio. The financial position of the company from 2011 – 2015 suggests a robust financial outlook as shown in Table 4 below.

Table 4: GHL financial position (2011 – 2015)

All Amounts in GHS ('000)	2011	2012	2013	2014	2015
Cash and cash equivalent	3,820	9,041	14,226	11,427	14,148
Mortgage finance receivable	107,119	141,458	209,492	290,326	363,637
Debtors and other assets	313	1,276	2,944	3,088	4,548
Deferred expenditure	1,657	2,092	2,206	2,717	–
Related company balance	–	–	–	–	–
Other investments	–	–	–	–	7,881
Property, plant and equipment	360	1,134	1,437	3,077	3,596
Intangible assets	425	–	–	–	–
Deferred tax asset	25	–	177	351	701
Current tax asset	–	–	–	–	131
Total Assets	**113,720**	**155,001**	**230,482**	**310,986**	**394,643**
Short-term facilities	22,449	21,360	32,438	13,279	30,295
Trade payables	3,121	–	–	–	–
Customer deposits	–	3,642	5,339	10,049	19,112
Related company loans	–	–	–	–	–
Long-term borrowings	73,518	107,509	158,975	231,760	270,045
Other liabilities	2,990	4,380	6,773	5,658	8,723
Current tax liabilities	1,105	1,518	15	157	–
Deferred tax liabilities	–	108	–	11	–
Total liabilities	**103,183**	**138,517**	**203,541**	**260,914**	**328,176**
Shareholders' fund					
Stated capital	5,566	5,566	7,002	5,566	12,288
Deposit for shares	–	1,436	3,236	6,722	–
Retained earnings	126	1,600	5,731	12,637	21,501
Credit risk reserve	2,267	3,055	4,981	13,525	20,673
Statutory reserve	2,578	4,828	5,991	8,905	12,006
Current translation reserve	–	–	–	–	–
Total equity	**10,537**	**16,484**	**26,941**	**47,354**	**66,468**
Total equity and liabilities	**113,720**	**155,001**	**243,584**	**308,268**	**394,643**

Source: GHL (2016).[46]

[45] GHL (2016).
[46] GHL (2016).

6. Key findings and analysis

A number of factors have propelled GHL as the leading mortgage institution in the country. These are either based loosely on market characterises in Ghana, or based on particular institutional practices of GHL over time.

6.1 The back story

Before the Ghana Home Loans story can be told, there is a prologue of how the original support it received from OPIC came to be. On July 12, 2003, President George Bush announced at the Leon H Sullivan Summit in Abuja, Nigeria that he had tasked his Secretary of the Treasury together with other organisations including Fannie Mae and OPIC to *"help strengthen and broaden capital markets"* in Africa.[47] Subsequently US$50 million was committed by the US government to set up the United States – African Mortgage Market Initiative to support the objective of assisting African countries establish mortgage markets. Other actors including Development Credit Authority and Ginnie Mae were all roped into the financial and technical assistance programmes for primary and secondary market development. It led to disbursements that directly supported the construction of family homes to be later recycled as mortgage loans (Uganda – US$8 million); guaranteeing local bank financing (South Africa – US$5 million; Nigeria – US$3.5 million; US$5.3 million – Ghana); establishment of a micro-lending facility for housing and small business development (Nigeria – US$4 million).[48]

The founders of GHL, in identifying this opportunity to seek the funding to start the business, exercised savvy market surveillance. Their scanning of the policy landscape of international development assistance interventions led to the identification of OPIC as a prospective source of long-term financing that was subsequently exploited.

> *"…. We saw a gap in the market because at the time, BHC and others had collapsed and only HFC was operating but (sic) had strategically moved away from housing because of the experience. That was the fact they were operating in a high local interest environment and which made it even impossible for people to even pay the interest on the loan, let alone the principal. And so most people were not keen to take on mortgages in the local currency. They (HFC) converted into a bank and started doing other things. For us we thought that it was the right time to come in. There was no player… I think OPIC had an affordable housing initiative which was announced by George Bush. So, we tagged on to that and got our first long-term funding from there."* [49]

Given the nascent stage of the company there was high risk associated with dealing with GHL and it required several types of guarantees from credible and high-level interlocutors and factors to make the case. It is worth noting the encouragement by the Ghanian President to attract investment into the housing and mortgage sector at the time[50] in addition to the interest of international development agencies such as UN-Habitat[51] on affordable housing finance.

6.2 The OPIC model – Leveraging Strategic Partnerships

As noted, one of the strategic partners of GHL, Stanbic Bank Ghana, a subsidiary of Standard Bank South Africa, leveraged its experience and assets to secure the OPIC facility for GHL. GHL did not have the track record to be able to engage the OPIC for such a facility. Two senior management staff of GHL discussed this leap of faith thus;

> *"The people who took the greatest risk is OPIC, because they came in from the very beginning. When they came there was nothing. Even though there was nothing, they still gave us $30,000,000."* [52]

> *"To get a larger sum of money we needed a larger balance sheet. We didn't have that balance sheet but we managed to structure something that made OPIC comfortable and that is becoming more or less the pattern we have funded our operations with since."* [53]

Clearly, the bridging finance facility provided by Stanbic Bank played an important role in aiding GHL to access funding from OPIC. The instrumentality of strategic partnerships with already established financial institutions (corporate and DFIs), in this case the role of Stanbic Bank, is certainly a factor to be considered.

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[47] Public Papers of the Presidents of the United States, Office of the Federal Registrar, pages 866-867.

[48] Speech by John B Taylor, Under Secretary for International Affairs, US Treasury Department at the African Round Table on the role of mortgage finance in developing capital markets, Kampala, Uganda on May 25, 2004.

[49] Interview with the Chief Executive Officer of GHL.

[50] Source: https://www.modernghana.com/news/89196/1/jak-sells-ghana.html and also https://www.foreign.senate.gov/imo/media/doc/WilliamsTestimony060504%20.pdf

[51] UN-Habitat invited the US Secretary for Housing and Urban Development at the time to its governing council meeting in Nairobi and subsequently a high-level Peer Exchange on "Government Enablement of Private Sector Lending for Affordable Housing" in Accra from 27th November 2006 to 1st December 2006. (Source: http://mirror.unhabitat.org/content.asp?cid=4146&catid=198&typeid=5)

[52] Interview with Chief Operating Officer of GHL.

[53] Interview with Chief Executive Officer of GHL.

While OPIC provided the funding, FMO also invested equity capital of US$15 million. The OPIC loan was indeed the icebreaker that propelled GHL to the 'good books' of other DFIs. Some of the critical covenants by OPIC loans agreed to by GHL that have featured in subsequent funding transactions with other DFIs, include;

a) The establishment of a debt reserve account, and
b) The provision of collaterals for the houses financed from the loan.

Following the success of the partnership between GHL and OPIC, subsequent lenders have requested for similar covenants and this has almost developed into a trend.[54] In addition, collaboration with credible foreign institutional investors that are well-known and active in the investment markets especially in Africa have also helped GHL to raise long-term funding. For instance, the IFC invested in GHL because some of its partners have had earlier engagements with GHL and these increased IFC's confidence in the operations of the mortgage institution.[55] Management of GHL is convinced that OPIC was brave to go ahead to undertake this investment without looking at the history of the country where periodically, inappropriate and erratic regulations by Governments and the Central Bank have been the bane of mortgage operations. Arguably, the prospects of GHL were enhanced by the ongoing reforms in the country (evidenced by the Borrowers and Lenders Bill, Credit Bureau Bill and land administration reforms) and so lenders were assured of an evolving and forward-looking environment.

Secondly, GHL's success in raising long-term funding from DFIs is also partly a result of the type of partnership they have developed with other credible institutional investors conversant with the African market. In this case, the trust of OPIC in the credibility of Stanbic Bank as well as the confidence of other investors such as IFC in the fiduciary prudence of the partners that had earlier engagement with GHL assuaged all concerns about their subsequent investment. It presupposes that secondary investors were conversant with the standards exercised by the primary investors to establish credibility, risk assessments strategies, and due diligence procedures. Thus, IFC's long-term funding to GHL was predicated on the realisation that Aureos Advisors was already an equity holder and board member of GHL. This made IFC comfortable as they were fairly certain that this equity firm would have done proper due diligence.

6.3 Maintaining repayment reputation through product pricing strategy

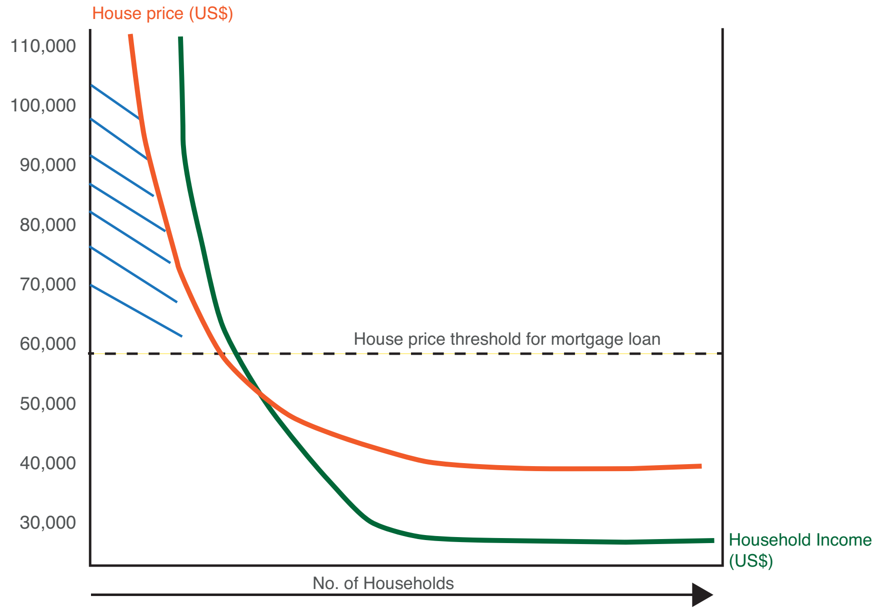
GHL's ability to repay the loans when due has also boosted their track record. Investor confidence in GHL and its ability to repay the investment has been high, with some lenders indicating that credit risk has never been a problem with their transactions with GHL as the mortgage institution has always settled its obligations with them in full and on schedule. A respondent from Shelter Afrique, one of GHL's investors, intimated that there has been no reason to revise their risk profile of their investment with GHL."[56] Other investors have supported these claims by indicating that "the key strengths of GHL are that: "they really understand the mortgage landscape, they do proper due diligence on their clients, and good collection and servicing of their loans."[57] GHL also reiterates their distinction in the mortgage business, indicating their record of performance in servicing the loaned funds."

> *"The advantage has been that when we borrow, we pay, and we have not missed a single payment for 11 years. Even when the currency was jumping all over the place, we still met our obligation without going about with excuses."* [58]

The strategy deployed by GHL to ensure low default and thereby engender prompt repayment is partly a combination of the assessed market risks and the establishment of the eligibility thresholds in housing prices that minimised their exposure to default. This approach led to the establishment of US$60,000 as the minimum property value eligible for mortgage loans[59], although that price point is unaffordable to most low-income households. With a monthly average household income of GHC495 (US$125) for salaried employees,[60] such house pricing is far above what could be afforded by average formal sector workers – *"the ordinary Ghanaian salaried worker."*[61] Thus, the GHL house pricing strategy was a demand-side risk abating measure. Although lower priced housing had the potential for generating larger volumes of borrowing, the pricing strategy linked the desired quality and size of housing to the risk threshold of default that could be reasonably managed. There is a balance between households' level of default risk and the housing quality-space-price that must be established to guarantee the confidence for repayment by investors of long-term funds in mortgage funds. This is depicted in the notional graph in Figure 5 below. The shaded portion represents the section of households able to afford the housing segment on the market for mortgage loans. In structuring the mortgage loan according to the house price point, there is less focus on household income, creating opportunity for the combinations of household incomes in joint mortgage loan applications to meet the required threshold. The fastidious application of income threshold of borrower discounts such internal arrangements.

[54] Interview with the Chief Operating Officer, GHL.
[55] Interview with a representative from IFC. These partners were FMO, Standard Bank, Broad Cove and Aureos Advisors.
[56] Interview with informant from Shelter Afrique.
[57] Interview with IFC.
[58] Interview with Chief Operating Officer of GHL.
[59] The loan-to-value ratio ranges between 70% and 80%. There are instances where the Bank has provided 100% loans which has been secured with insurance.
[60] GSS (2014).
[61] Bank of Ghana (2007).

Figure 5: Relationship between household income, house price and minimum threshold for mortgage loan



Source: Authors' construct (2017).

6.4 Diaspora client base as a currency risk mitigation measure

Lending funds acquired in foreign exchange has both positive and negative outcomes. In most cases, the foreign currency fluctuations are a function of the business practices in the economy. Sometimes the fluctuation is a direct response to government interference in the foreign exchange market such as what happened in 2014.[62] Opining on the government's policy on foreign currency transactions to halt the spiralling of the local currency[63], one respondent noted:

> *"it [the Bank of Ghana forex policy] did cause major disruption to the business. It made the Ghana cedi go from 2.2 to 4.5 to the dollar so it made the cedi earners who borrowed in dollars go under a lot of stress and it affected our portfolio quality. We gave our borrowers the option to push into cedis so if you had a dollar loan you were allowed to convert that into cedis, but they found that even worse. Because if you couldn't afford the dollar you certainly couldn't afford the cedis. And so all of that was going on, we went back to BoG and told them that, this policy was not working, because it retards the development of the mortgage market, so they gave us exemptions. So we got exemptions from those requirements even before the Bank revised the policy."*[64]

The quick actions of the management of GHL helped to limit the damage to the mortgage portfolio and this assuaged the worries of the DFI lenders. In addition, GHL undertook internal adjustments in response to the policy changes, thus adjustments to existing contractual arrangements with GHL and its partners were unnecessary.[65]

Besides, lenders are assured of minimising foreign exchange losses since GHL availed US$ denominated loans to mortgage seekers based abroad as such earnings in hard currencies could limit the exposure of the invested funds to exchange rate depreciation. One respondent noted that:

> *"Our challenge had been the fact that we do not keep a cedi book so lending in cedis was going to be a problem. At the same time, we knew that their receivables mostly being in cedis, and because of foreign exchange risk, we didn't find it attractive to lend foreign currency … to them. But when we started talking there was some good common ground because we realised there was substantial non-resident Ghanaian customer base who remit them in foreign currency. So, we thought that looking at the flows which come in from abroad we could create the forex receivables from there."*[66]

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62 In the first quarter of 2014, Bank of Ghana made far-reaching policy pronouncements relating to foreign currency loans by local financial institutions. Some elements of these policies were relaxed towards the end of the year.

63 See: https://www.ft.com/content/32aa70e4-8e91-11e3-b6f1-00144feab7de. In the preceding year in 2013, the local currency fell by 23 percent, gaining notoriety as the worst performing currency, bar the Rand (Quartey and Afful-Mensah, 2014: 121). Altogether, the cedi depreciated by over 40 percent in the two years, 2013 to 2014 (Adu, Karimu and Tei-Mensah, 2015: 7).

64 Interview with the Chief Operating Officer of GHL.

65 Interview with Shelter Afrique.

66 Interview with Ghana International Bank.

This position of borrowing in foreign currency to lend to mortgage seekers whose incomes are in foreign currency (whether resident or non-resident) appears to be a favoured path. HFC Ltd., a predecessor to GHL undertook a similar arrangement issuing (corporate) bonds on the Ghana Stock Exchange in foreign exchange and using this to fund the loan portfolio focusing on non-resident borrowers, although that was not sustained.[67] It is suggested that foreign currency mortgages should be made to non-resident Ghanaians or Ghanaians with foreign currency accounts, as this would likely mitigate the risks of foreign exchange fluctuation while lending local currency mortgages to resident Ghanaians whose earnings are in the local currency to expand the mortgage institution's portfolio."[68]

However, confronted with the volatility of the economy, GHL has not seen the offer of mortgage loans in foreign currency as necessarily an easy issue to manage, notwithstanding the existence of the offshore market and the savviness of the management. The majority of the DFIs tend to prefer that mortgages should be structured to reflect 'western style' mortgage products.[69] These restrictions have limited GHL's ability to innovatively address the specific housing needs for Ghana in particular. Home development in Ghana is mainly through incremental building processes which require smaller loan portfolios, preferably in Ghana cedi. However, there is hardly long-term funding available to GHL for this segment of mortgage seekers.[70]

To mitigate the risks of long-term lending in support of mortgage operations, most lenders have also put forward precedent and performance conditions for GHL before and after accessing their funds respectively. These conditions can be classified into;

a) Regulatory compliance and performance against standardised ratings
b) Competent operations and practices.

6.4.1 Regulatory compliance and performance against standardised ratings

Prior to contractual engagements with GHL, it is common for lenders to demand that the mortgage institution fulfils certain conditions. Many of these covenants and conditions primarily concern compliance to regulatory requirements as well as the general financial performance of the mortgage institution to be assessed by internationally recognised criteria. In the case of GHL, the mortgage institution is periodically rated by the Bank of Ghana on a scale of 1- 5 based on proprietary formulas. These formulas are typically based on capital, asset quality, management, earnings, liquidity, and sensitivity to the market risk CAMELS. This form of rating is commonly referred to as the CAMELS[71] rating system, an internationally recognised rating system. The lenders generally rely on these ratings to inform their partnership relations with GHL. The minimum score demanded by most of GHL's funders is commonly suggested to be "fair" (i.e 3). Based on interviews with GHL's funding partners all the requirements [CAMELS] were met in full and GHL continues to meet these requirements as it repays its loan.[72] That GHL strives continuously to meet the minimum criteria provides confidence to lenders that the financial institution is in a safe fundamental condition.

These assertions are supported by GHL's strict compliance to the regulatory requirements for sector operators by the Bank of Ghana. The basic compliance criteria required by Bank of Ghana includes (a) capital adequacy ratio and (b) liquidity. The Bank of Ghana set the primary capital adequacy ratio, a measure of solvency, for commercial banks at 10 percent for 2017.[73] As a non-banking financial institution, GHL has maintained the minimum capital requirement of GHC120 million stated by the Bank of Ghana. At the time of writing this report, this minimum requirement had been raised to GHC400 million (US$91 million).[74] Given that GHL has recently acquired a license to operate as a universal bank[75], the mortgage institution would now need to comply with both the minimum capital requirement of GHC400 million as well as the capital adequacy ratio of 10 percent.

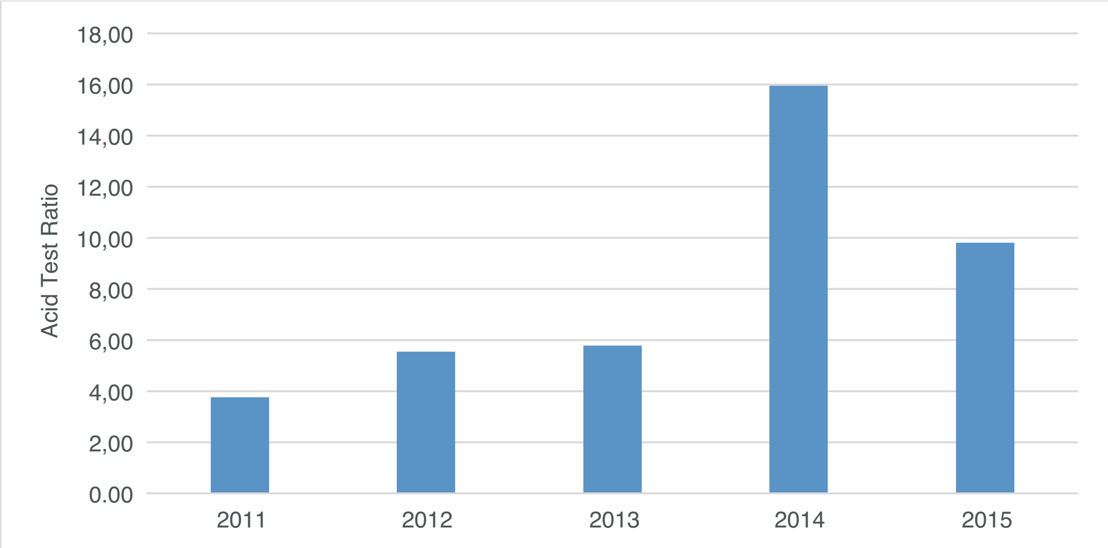
With regards to GHL's liquidity, Figure 6 shows that the acid test ratios[76] are above one (1) for each year. This suggests that GHL had enough short-term asset to meet their immediate liabilities during the 2011 – 2015 period.

There are however concerns about the leverage ratios[77] of GHL, representing potential risk to investors. The debt-to-equity ratio is an important financial metric for investors because it is used to ascertain the soundness of the long-term financial position of the mortgage institution. A higher ratio indicates a risky financial position while a lower ratio indicates a safe financial position. It is suggested that the acceptable Debt-Equity Ratio is 2:1 which means debt can be twice the equity.[78] Figure 7 shows that although

67 Interview with Charles Bonsu, Former Head of Mortgages, HFC & Housing Finance Expert.
68 Interview with Asare Akuffo, Housing Finance Expert.
69 Interview with Chief Executive Officer of GHL.
70 ibid
71 The CAMEL rating system is used by supervisory institutions, in this case the Bank of Ghana, to rate financial institutions according to six factors represented by the acronym "CAMELS" – Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity. Financial institutions with an average score of less than two are considered to be high-quality institutions while a score of more than three is considered to be a less-than-satisfactory institution.
72 Interview with Shelter Afrique, International Finance Corporation and Ghana International Bank.
73 Bank of Ghana (2017).
74 ibid
75 http://citifmonline.com/2016/11/18/ghana-home-loans-to-start-operations-as-a-bank-in-2017/
76 Acid Test Ratio is the a liquidity ratio that measures the ability of a company to pay its current liabilities when they come due with only quick assets.
77 Leverage ratio is calculated as total debt divided by stockholders equity.
78 Boadi, E. K. and Y. Li (2015). "An Empirical Analysis of Leverage and Financial Performance of Listed Non-Financial Firms in Ghana." International Journal of Economics and Finance 7(9): 120.

GHL's debt-to-equity ratio has continuously declined over the period, although it was still relatively high in 2015. Typically, a debt to equity ratio greater than 5 or 6 indicates a risky scenario for investors. However, in the banking industry a debt-to-equity ratio of 10 is not uncommon and is generally acceptable.[79]

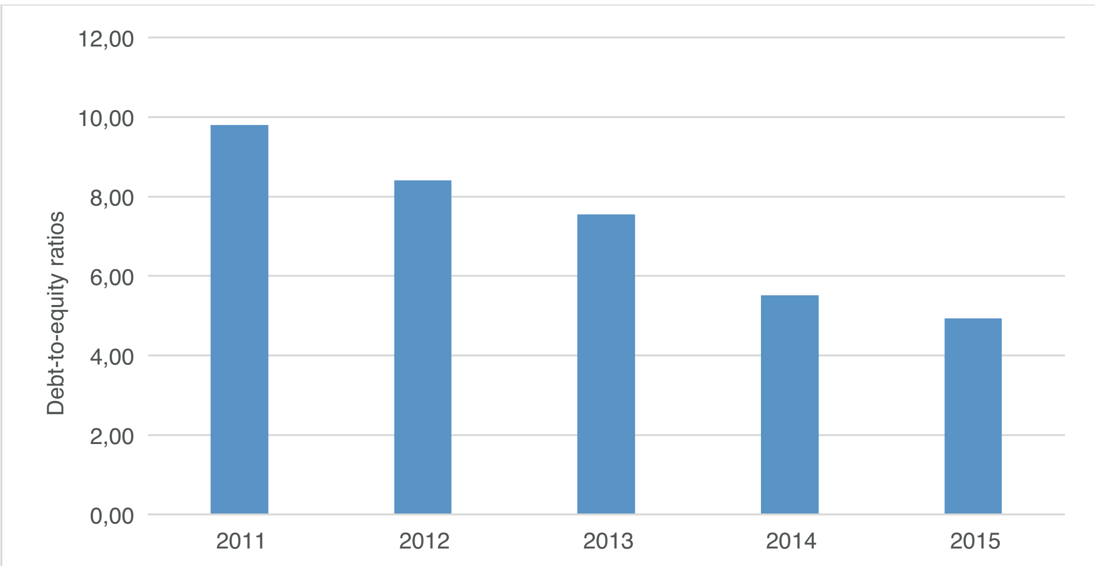
Figure 6: Liquidity ratios for GHL (2011 – 2015)



Source: GHL (2016). Listing Of GHS 380,000,000 Domestic Medium Term Note Programme On The Ghana Alternative Market Of The Ghana Stock Exchange. Available at: http://www.annualreportsghana.com/Home/Documents/Circulars/Companies/GHL-DMTN-Programme-Memorandum.aspx

This is because banks and mortgage institutions typically borrow money at lower rates to lend at higher rates, making a profit on the spread between the two. It must be stated that in banking, especially mortgage banking, the debt-to-equity ratio is not that critical because the mortgage portfolio is a self-financing one and typically its main funding source is long-term debt instruments. The critical risk issue for GHL is the fact that since it relies heavily on external funding for its mortgages, then the source of repayment by its mortgagors should be dollar-denominated. But if a high proportion of the mortgagors earn cedi income then there will be inherent exchange rate risk which can be exacerbated by the default risk with its resultant negative impact on NPL.

Figure 7: Leverage ratios of GHL (2011 – 2015)



Source: GHL (2016). Listing Of GHS 380,000,000 Domestic Medium Term Note Programme On The Ghana Alternative Market Of The Ghana Stock Exchange. Available at: http://www.annualreportsghana.com/Home/Documents/Circulars/Companies/GHL-DMTN-Programme-Memorandum.aspx

[79] D'Hulster, K. (2009) and Yazdanfar, D. and P. Öhman (2015).

6.4.2 Operations and Practices

Although lending for mortgage activities in Africa by DFIs is beginning to record an increase, the proportion of market share remains lower than expected.[79] Most lenders consider investments in the real estate sector too risky for private capital, mainly due to the higher barriers to entry compared to other sectors, but also due to other risks including interest rates, currency risks and market risks among others.[80] These risks tend to make lending for mortgage activities unsustainable. However, it would appear that lenders seem satisfied and are confident with the mitigation measures that GHL has put in place.

For instance, in dealing with market risk, GHL ensures that variable rate loans are structured in a way that the borrower's rate is adjusted to reflect any interest rate differentials that have arisen between commitment and actual disbursement. This is done through the following means;

- Interest rate pegged to London Interbank Offered Rate (LIBOR) (3 months average +7 percent)
- Limits to related party lending (loans given to management and shareholders)
- Monthly, quarterly and annual monitoring
- Six months forecasting of foreign exchange rates.

Relatedly, GHL mitigates interest rate risks by ensuring that all fixed rate mortgages have been matched to fixed rate funding lines. Similarly, variable rate mortgages are written using variable rate funding lines. Therefore, GHL's interest rate risk management process seeks to adequately address interest rate exposure so as to optimise return on risk while maintaining a market profile consistent with the entity's mission. Moreover, GHL manages foreign exchange risk by monitoring the sensitivity of future earnings and capital to varying foreign exchange rates. For instance, a portion of GHL's books are serviced by non-resident Ghanaians and this largely shields both GHL and their foreign partners from currency fluctuations. In the case that a mortgage seeker opts to borrow in local currency (cedi), then the financial facility is pegged to the prevailing US$ rate on the repayment date, thereby transferring the risk to the individual borrower. Although this strategy means that mortgage repayments could increase during high currency fluctuations, this is necessary to safeguard the interest of GHL and its partners. In fact, in some instances, lenders demand that GHL avails US$ denominated loans to mortgage seekers to match the wholesale funding availed to them.[81] While this is good for GHL and its partners, there is an underlying risk of default on the part of mortgagors since their incomes are cedi-denominated.

6.5 GHL and the US$100 million bond experience

In an attempt to diversify their funding sources by raising long-term funds from the capital market, GHL has started floating bonds in the Ghanaian market. The first of this kind was issued in 2016. The Ghana Securities and Exchange Commission (SEC) approved for GHL to issue two tranches of US$1 million and the cedi equivalent of US$4 million respectively. According to the SEC, one week extension was granted after the end of the offer. Proceeds realized from the first tranche was 33.5 percent of subscription while tranche two was 57.7 percent of subscription. While the second tranche appears to have performed relatively well compared to the first tranche, the general performance of the bond was unsatisfactory, with a lower than forecasted uptake. These assertions have been supported by the directors of GHL. They attribute the average performance of the note program to poor timing.

> *"I think the actual participation was average. I will say satisfactory. The timing was probably wrong, we came out in August, which is a holiday month, and at the time, T-Bills were high at around 24 percent. We were offering 8 percent in dollars so it didn't seem quite attractive. So people were constantly reminding us they can get T-Bills at 24 percent. If we came out today where T-bills are 12 percent we would probably get a better response."*[81]

Other financial experts have supported the claim of poor timing. An interview with an official from the BoG revealed that the average performance of the bond is partly due to poor timing – timing both in terms of competitive expected returns and national politics.[83] The GHL bonds were issued at a time when the economic forces of supply and demand were affected by the interest rates and high Treasury bill rates. T-bills and other investments were returning more (about 25 percent) within a short time (91 days or 182 days) compared to 8 percent return rate from GHL's note programme. Therefore, investors might have been influenced by the risk free high T-Bills rates and hence the lower than expected subscriptions levels of the bond. Moreover, the 2016 presidential elections were also a few months away and the possibility of political instability might have been perceived as a threat to investments that had long-term horizons, beyond the elections. These two factors might have created some investor ambivalence towards all medium and longer-term investments including the GHL bonds. Beyond the timing and political atmosphere factors, some market observers point out that the level of engagement with investors by the transaction advisors as well as the level of publicity are likely candidates for the average bond subscription.[84]

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79 The Africa Investment Report 2017, available at; http://forms.fdiintelligence.com/africainvestmentreport/
80 Interview with International Finance Corporation and Ghana International Bank.
81 Interview with Shelter Afrique.
82 Respondent 2.
83 Interview with Licensing official, Licensing Department of Bank of Ghana.
84 Interview with SEC.

It is worthwhile to note that although private pension funds had expressed an interest in GHL's medium-term note program, their ultimate participation was less than expected, perhaps due to the perceived risks associated with mortgage financing. Ghana's pension regulations have enabled pension schemes to direct a portion of pension funds (tier 2 & 3) to mortgage markets. However, these regulations appear restrictive, perhaps as a cautionary measure towards safeguarding pensioners' income. This is evidenced in section 82(7) of the Securities Industry Act, 2016 (Act 929), which states that "a scheme shall not invest more than 10 percent of its value in any type of real estate, including buildings or interests in real estate except in the shares of real estate companies." The National Pensions Regulatory Authority also has investment limits imposed on pension funds. For example, a pension fund can invest a maximum of 5 percent of its assets in eligible bonds, REITS, MBS and debentures of any corporate entity. It would seem that trustees and asset managers still perceive real estate investments as unsound or a high-risk investment. This point is well made by a representative at SEC who stated that "mortgage financing is deemed to be safer and provides average returns, lower than equity but higher than other debts instruments in other jurisdictions. [However], this outcome may not be reflective of the Ghana case given the liquidity and investor sophistication of the Ghana Stock Exchange."

In this respect, previous experiences of bond placement for mortgage financing may be instructive. The HFC, for instance, issued mortgage bonds (the house bonds) to raise US$2.55 million in 1996, US$2.70 million in 1999 and US$4.23 million in 2001.[85] Experts argue that HFC's success in raising long-term funding from the capital market is partly attributable to HFC's operational strategy.[86] The operational strategy adopted by HFC involved targeting specific organizations for placement by introduction. One of these organizations was Ghana's largest pension fund managers, the Social Security and National Insurance Trust (SSNIT) which was already a shareholder of HFC with 33 percent shares. This made it relatively easier for them to show interest in HFC's bonds. For instance, HFC issued a 30-year bond to SSNIT. This was in addition to the bonds listed on the stock exchange market in US$ (corporate bonds) and these were used to fund their non-resident Ghanaian portfolio denominated in US$. In addition, HFC is listed on the Ghana Stock Exchange (GSE) and its bonds were also listed while GHL bonds were not listed on the GSE. The advantage of listing bonds on the GSE is that they could be sold to the general public but there is a limit to private placement as in the case of GHL. Thus, with GHL unrated and unlisted bonds, investor confidence and risk aversion were heightened.

GHL, on the other hand, made several unsuccessful attempts to secure SSNIT's interest in the medium-term bond. This view was captured during interviews with the directors of GHL. "We tried very hard to get SSNIT to fund but after 4 or 5 years of trying, we gave up."[87] Therefore, it was not surprising when SSNIT did not show interest in GHL's bond. It is difficult to pinpoint the reasons for SSNIT's non-participation in the GHL note program. However, it is instructive to note that based on the experience and success of HFC's strategy to enhance subscription levels of their bonds, it is prudent for GHL to reconsider their strategy in bond issuance.

Despite the low performance of GHL bonds in 2016, GHL appears very positive towards raising funds from the capital market. The mortgage institution is particularly encouraged by the success rate of Government of Ghana's 15 years local sovereign bond which raised GHC3.247 billion[88] following some improvements in the macroeconomy which have resulted in lower interest rates and T-Bill rates.

> *"There has been some improvements in the environment where the current government issued 15 year bonds in local currencies. So that allows us to price off a local currency bond. The rates are coming down and I think we are getting to the stage where we may be indifferent if the trend continues. Very soon we will be indifferent between local currency and foreign currency. Although we still believe that the foreign currency will continue to play a dominant role, 1) because the real estate industry is a dollarized industry anyway, and (2) people are also aware of the extreme volatility of the local interest rates."* [89]

In order to increase their funding mix relative to the local currency funding, GHL intends to continue to issue local bonds, barring a favorable economic environment. Fortunately, the dominant role of SSNIT as a pension fund manager has been diminished by the recent pensions reforms underpinned by the National Pensions Act, Act 766. Private pension firms are now managing the tier 2 and 3. This presents GHL with opportunities to draw the attention of these private pension firms with regard to their bonds.

> *"I think, the advent of private pension fund managers is going to result in a large pool of money, and it is long-term money that has to be placed somewhere, and I think mortgages provides an opportunity for those investments to be made."* [90]

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[85] Ghana Stock Exchange (2003).
[86] Interview with Asare Akuffo & Charles Bonsu.
[87] Interview with the Chief Executive officer of GHL.
[88] http://www.myjoyonline.com/business/2017/April-3rd/govt-gets-gh34-billion-in-historic-15-year-bond-issue.php
[89] Response from Chief Executive Officer, GHL.
[90] ibid

6.6 Operational Challenges

One of the critical challenges that has limited the operations of the company relates to the unstable macroeconomic environment. In an economy where the currency is relatively unstable and unpredictable, actual mortgage repayments are adversely affected. In a portfolio, where 70 percent of borrowers[91] earn local currency, but take loans denominated in dollar terms, any fluctuation in the currency relative to other currency (especially US dollars) places more stress on the cedi earners.[92] This has made local currency earners who borrow in dollars and pay the dollar equivalent, pay more on their mortgages therefore affecting their repayments.[93] Though measures have been introduced by GHL where cedi mortgage customers are asked to pay 10 percent more on their normal repayment, this has posed serious stress on them and sometimes leads to repayment fatigue and potential default risk.

Another challenge that affects the operation of GHL is inadequate understanding and appreciation of mortgage products by borrowers. According to the Chief Operating Officer, awareness of market norms and standard mortgage practices is a key challenge that affects their operations. Although most of the clients are enlightened, understanding the nuances of the particular mortgage products is problematic. Each of the mortgage products have their specific requirements and purpose, but most clients require more education on the entire products available in order for them to appreciate and make a choice of what they really want. It is for this reason that the Weekend Mortgage Clinics are held at the grounds of GHL to further improve the knowledge of mortgage systems by clients and prospective borrowers. Furthermore, the Mortgage Clinics provide an opportunity for education around time-value of money as borrowers tend to want to overlook that, and make repayments in tenors shorter than agreed.

Besides, supply side constraints have also affected the operations of the company. There is a limited supply of affordable houses that are within the ranges of the GHL target market. According to the COO of GHL, the issue of affordable housing has been a challenge especially in definition and availability. It is hard to predict the number of houses that are readily available on the market at any point in time. Over the years, efforts have been made to deliver affordable housing through various models and methods such as vertical construction, new technology and public-private partnership arrangement but these have not adequately addressed the issue of affordability. In addition, the philosophy of most Ghanaians is that they do not see housing as investment and therefore do not really appreciate using their homes for mortgage facilities. This claim is corroborated by the CEO of GHL in the following statement:

> *"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."*[94]

The large size of the informal sector, most of whom are self-employed, poses serious challenges in credit scoring. While this group constitutes a chunk of the population and most of them have household incomes that could qualify them for mortgage products, it is difficult to properly estimate their earnings, thus limiting GHL's portfolio and constraining growth in the mortgage market.

Furthermore, the limitations of the capital market in Ghana poses another challenge to GHL.[95] This phenomenon has led to GHL's over reliance on DFIs for long-term funding at very competitive rates. Again, this type of funding comes with some limitation on what GHL can do with the funds. For instance, most funding from DFIs require their funds to be made to a pool of up-market homes and repayment must come from this pool of home loans. This has also compelled GHL to lend in US dollars in a cedi economy thereby exposing their customers to foreign exchange risks especially with regards to those customers who are cedi income earners.

In addition, the under-developed capital market does not lend itself to mechanisms that offer long-term funding through securitisation arrangements. This limits GHL's ability to raise local currency funding in the country. For example, the CEO compares the Ghanaian situation with South Africa and posits that:

> *"The South African non-bank sector has grown rapidly and has been boosted by its mortgage switching facility… …Ghana Home Loans predominantly writes loans on new properties and took over five years to disburse US$100 million. By comparison, South Africa Home Loans (SAHL) reached US$1 billion within three years, mainly due to borrowers switching to them from banks to avail themselves of better interest rates."*[96]

Lastly, the issue of title perfection continues to constrain the growth of GHL's mortgage portfolio. GHL has been struggling to meet the title perfection ratio set by most of the funders. This is a systematic problem which goes beyond GHL. The registration of land

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[91] GHL (2016).
[92] Asare and Whitehead (2006).
[93] ibid
[94] Addai Boamah (2011).
[95] ibid
[96] ibid

title and mortgage deeds at the Lands Commission is not up to speed with what is needed for mortgage operations. The managers of GHL illustrate this difficultly succinctly

> *"…So having to do it [title registration], it slows down the process. If it was to be done in a day you could still grow very quickly and not make mistakes but here every search takes months, every survey takes months. So what is the average duration for a person to go through the process? Hard to say, we control part of the process, the other part is controlled by government. If a public sector employee for instance comes for a loan we can determine how much they qualify for within an hour or two but to check which property they are buying, to do a search, a survey, or valuation it takes three months, so it is not ours, it is government."* [97]

Thus, to the extent that GHL is not able to control this process, it affects its operation. IFC has indicated categorically that they will not be investing in GHL because of its inability to meet the perfection ratio.

7. Conclusion

This case study has analysed GHL's success story of raising long-term funding from DFIs and the challenges of raising funding from domestic capital markets. It has also analysed GHL's perspectives on regulatory compliance and its effects on raising long-term funding as well as the implications of its experiences on wholesale funding for mortgage operations in Ghana.

GHL's successes in raising long-term funding from DFIs has largely been attributed to its ability to leverage its capacities and competencies through strategic partnerships with well-known foreign investors that have broader networks within the DFIs. These partnerships have enhanced the company's reputation and networks within the international investors' community and has placed it on a pedestal to attract more DFI funding. In addition, the company has built a reputable track record over the years through its ability to reduce mortgage default rates and maintain consistently good repayment rates of debts to investors. This has been facilitated by the company's efforts at appropriately targeting clients that have the ability to pay, competitive pricing and promotion strategies, as well as the use of the diaspora client base to mitigate currency risks.

On raising funding from domestic capital markets, the company's performance has been average as compared to funds raised from DFIs. The factors that limited its ability to raise adequate funding from this market include bad timing, inappropriate strategies and the listings of bonds status of the company. The floating of the medium-term bonds by the company were therefore affected by these factors. In addition, the state pension funds managers did not show considerable interest in the bond as compared to the HFC bank, because of the perceived risks associated with the illiquidity nature of real estate and the status of listing of the bond.

With regard to the GHL's perspective on regulatory compliance, the company has consistently complied with regulations set by the Bank of Ghana as well as covenants and conditions set by their funders. Regulatory compliance has not affected the company operations negatively but rather has strengthened its resilience levels against short to medium term macroeconomic shocks. The company's ability to engage the state regulator on certain policy decisions has also helped to facilitate their mortgage operations. At best, what can be said about regulatory compliance is that it has limited the company's ability to explore innovative means of raising long-term funding. This is especially true when DFIs covenants and conditions have tried to model and structure the company's mortgage operations after the 'western' type, thereby limiting their ability to engage in other innovative funding for the informal housing markets.

As expected, the unstable macroeconomic environment, limitations of the domestic capital markets and title perfection issues have affected the company's ability to raise long-term funding. Though significant improvements have been made towards addressing these challenges, they are far from over, especially the unpredictable nature of the macroeconomic environment.

Thus, the experiences of GHL with regard to raising wholesale financing for mortgages point to the fact that there is a great potential to raise medium term funding from domestic capital markets especially with the current status of the company – as a bank and a deposit taking institution. If bonds are well listed and targeted appropriately, such as what HFC bank did, it can raise significant funding for their mortgage operations. Also, with the relative stability of the macroeconomic environment and the relative success chalked up by the government's domestic bonds, the prospect for raising medium funding from domestic sources is high.

[97] Interview with Chief Operating Officer, GHL.

Implications of GHL's new status as a universal bank

Converting from a non-bank financial institution to a universal bank has a number of implications.

First, it would lead to the expansion of the branch network of the bank in order to access funds from depositors. The larger branch network is the traditional approach to accessing more prospective clients for their deposits.

Second, the large, nominally, pool of depositors provide the GHL with a more diverse range of funding sources for its mortgage operations. This advantage diminishes given that depositors are likely to hold very short-term funds with the bank, making long-term lending inappropriate. Thus, the larger pool of funds would be undermined by the shorter tenor of depositors' funds such as to make mortgage lending unsustainable and highly risky.

Third, because of the economic and general challenges of mortgage lending in the country, the volume of mortgage business is small. The profit margins are equally small. Therefore, the only way to survive in the mortgage business is to make a large number of mortgages. Larger volumes help mortgage institutions to break even. This normative thinking easily collapses in the face of rising inflation and poor macroeconomic stability.

Fourth, it is hoped that by being a universal bank, GHL will strategically position itself for competition which might lead to more innovation in mortgage lending in the country. However, the challenge has been that moving into universal banking might lead to a lack of focus on mortgage lending.

In spite of these misgivings about the prospects of mortgage operations following the acquisition of a universal banking license and the inception of commercial and other lending activities, GHL affirms its commitment to the mortgage sector. They are confident the current business profile of dominant share dedicated to mortgage banking will remain the same, and thus the organisational structures will not change significantly.

8. Opportunities and recommendations

A critical examination of GHL's business and the performance of its recent bond issue suggests that GHL might benefit from the following recommendations.

One difference between the success levels of GHL and HFC bond issuances is the listing status of their bonds and the companies respectively. Listing of a bond improves the transparency, accountability and the governance of a company. Coupled with an improved liquidity position, listing improves the relative risk associated with the bond compared with an unlisted bond. Obviously, the HFC Bank has benefited from both its listing and the listing of its bonds. A similar listing of GHL's bonds may improve the success of its future bond issuance.

The illiquidity of real estate investments is one of the reasons why regulation often restricts the investments of investment firms and pension funds in real estate, particularly direct real estate. More liquid investment structures may be helpful in improving the liquidity of real estate. For instance, listed REITs compared with real estate companies are more liquid, likely to have better governance structures, more tax benefits and relatively low risk that could attract long-term loanable funds. REITs are essentially companies or groups of companies that manage a portfolio of real estate to earn profits for shareholders, and their special tax status means that they do not pay corporate tax on the profits of their rental business, but they need to comply with a number of conditions set out in tax law. GHL may consider researching how the establishment of a listed REIT as a subsidiary could overcome the regulatory restrictions of investment firms investing in real estate companies as per Section 82(7) of the Securities Industry Act, 2016 (Act 929). Furthermore, the introduction of a listed REIT will provide an alternative investment instrument to core investment assets such as stocks and bonds on the Ghana Stock Exchange for pension funds.

GHL should consider other innovative forms of raising mortgage finance including the establishment of a Mortgage Liquidity Facility as it pertains in other countries. It is also possible for GHL to develop backward linkages by partnering with developers of affordable housing units through construction finance schemes.

With its new status as a bank, GHL could leverage on its current status to raise more cedi-denominated long-term debt instruments from pension institutions, insurance companies and high net worth individuals. The need for capital allocated towards supporting longer-term mortgage instruments emphasises the maturity mismatch deposit-taking institutions confront in terms of housing finance. The existence of life insurance and pension industries provides an opportunity to tap into longer maturity assets to finance the mortgage market. It is worthwhile to note that the Ghanaian life insurance industry is a leader in West Africa. Strengthening the life insurance sector can therefore stimulate longer-term asset allocation better suited for investment in housing finance. In addition, pension funds provide a potential area for long-term capital allocation. SSNIT covers one-tenth of the country's labour force with its hybrid Tier-1 benefits. It is also the largest institutional investor in the Ghana Stock Exchange. Aside from its real estate investments and developments, SSNIT invests in HFC mortgage bonds. The channelling of capital into mortgage debt securities underscores the critical maturity relationship the pension capital has that is well-suited to mortgage investment.

It is essential for the Ghanaian capital market to be further developed, to foster the provision of housing finance by facilitating the flow of funds from long-term investors to homebuyers in the country. This would assist with matching long-term funding sources to long-term housing investment.

Also, it is important for policy-makers to focus on stabilising the macroeconomic environment in order to create the necessary conditions for long-term lending. The success of a housing finance market largely hinges on the performance of the macroeconomy. Prudent management of the economy will create greater opportunities for developing an effective mortgage market in the country and improve investor confidence in the operations of the capital market.

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