

5th Global Housing Finance Conference
Housing Finance in Emerging Markets
Providing Shelter • Creating Jobs • Fueling Growth
May 30-31, 2012, Washington



Affordable Housing Finance in Morocco

Session 2 : Affordable Housing Finance
Wednesday 30 May, 2012

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Background

Housing Policy

Conclusion

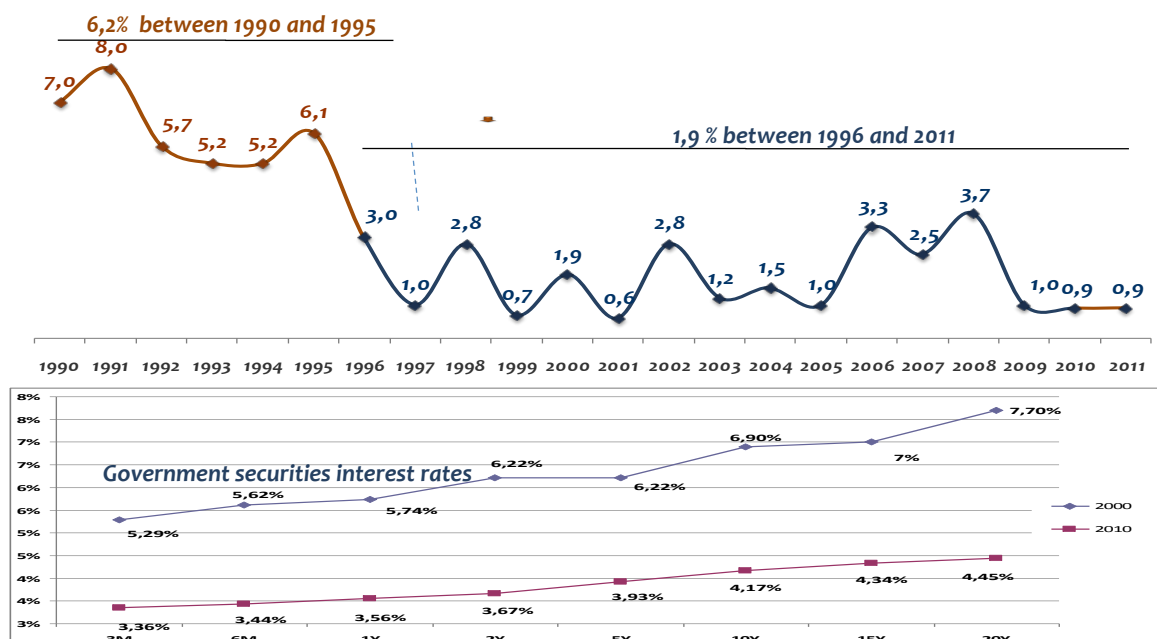
- **Factors driving demand :**

- Housing shortage estimated around 500,000 houses;
- Demographics characteristics and evolution:
 - *Young population : 37% less than 19 years ; 56% less than 29 years;*
 - *Households growth rate of 2,3%: 150,000 new househlods each year;*
- Urbanization: 58,3% in 2011 against 51,3% in 1994 and forcasted to 60% in 2015
- Increased income :
 - *26,4 thousand MAD in 2011 against 14,4 in 2000*
 - *Unemployment rate less than 9% in 2011 against 13,6% in 2000*
- Available lending: Housing loans/ GDP 16,9% in 2011 against 7,1% in 2000

- **An improved offer due to government incentives and emergence of large real estate developers :**

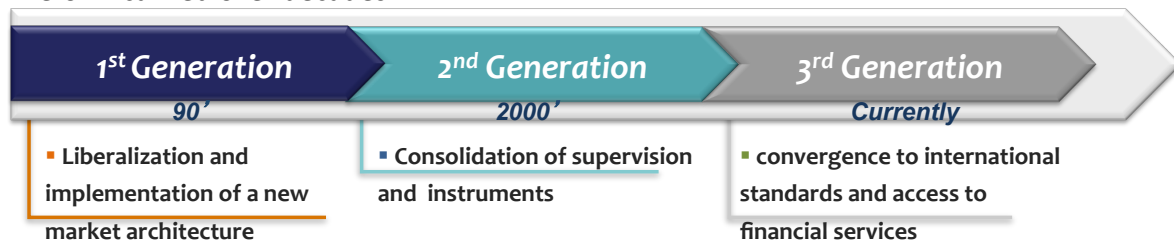
- Doubling the offer between 2000 and 2011

- Structural rationals for a comprehensive mortgage finance system : A growth (average of 5% during 2006-2011) achieved in a stable macroeconomic framework, structural low inflation and interest rates benchmarks



Background	A strong and increasing housing demand
Housing Policy	A sound macroeconomic framework
Conclusion	A strong financial sector

- Structural rationals for a comprehensive mortgage finance system : A financial sector reform carried over decades



- Banking sector total assets of 130% GDP, lending 85% GDP and a medium solvency ratio of 12,3% (core equity 9,7%)
- Stock exchange capitalization of 74% GDP
- An important insurance industry and pension funds (on regional standards)
- A strongly regulated financial sector
- A financial market infrastructure with the main actors and instruments;
- Role of the Public authorities : developping a sound financial sector that allows financing housing of a market base and then adress market inefficiency

Background	Main affordable products/programs
Housing Policy	
Conclusion	

- Main affordable products :
 - Social houses : Cost less than 250,000 dirhams (~\$30,000) ;
 - Very low cost houses : Cost less than 140,000 dirhams (~\$17,000). Used notably for slum households
- Supply incentives :
 - Cities without slums program : housing for over 300 thousands households financed notably by a tax on cement;
 - Mobilization of public land at competitive cost;
 - Tax incentives for social housing :
 - Developers which commit to produce at least 500 social houses over 5 years do not pay income tax on revenu generated by this activity;
 - Objective : encouragement of small and medium size developers to engage in social housing.
 - Since 2011, agreements have been signed with developers for the production of almost 1 million social units over the next 5 years

Background	Main affordable products/programs
Housing Policy	Fogarim - Access to mortgage loans for informal income
Conclusion	

- Demand incentives :
 - Tax incentives for main residence :
 - Deduction of interest payments of mortgage loans
 - VAT exemption on social houses for purchasers occupying the acquired home as their main residence for a period of at least four years;
 - Before 2005: demand subsidies essentially based on Interest buydown (IBD) system (interest subsidies):
 - Main aim: to lessen the cost of financing;
 - A system that showed its limits:
 - Targeting : mainly medium income wage-earners benefits;
 - High cost
 - Complexity and cost of management of the system
 - Weak marginal impact
 - Macroeconomic stability permits a large decline in interest rates
 - Solution: move to more targeted system focusing on irregular and low-income households
 - In the end of 2004 : Implementation of Fogarim a mortgage insurance fund

Background	Main affordable products/programs
Housing Policy	Fogarim - Access to mortgage loans for informal income
Conclusion	

- Objective of Fogarim: encourage banks to finance low and irregular (informal) income households by securing their loans against credit risk ;
- Targeting :
 - Informal income: precondition not have formal revenues (wages);
 - Low income: social houses and monthly payment less than 1500 DH ~\$176;
 - Not a homeowner;
 - Practice an activity that generates income
- Parameters of Fogarim:
 - Risk-sharing: The guarantee of 70% of the loan
 - Only fixed interest rates
 - Guarantee commitments are limited to 8 times the fund equity ;
 - Life insurance and mortgage security on the house;
 - A premium fee correlated to LTV (introduced only in 2009): Annual premium of 0,325% for LTV less or equal 50% to 0,65% for LTV 100%.
- Management of Fogarim
 - Strategic decisions : a steering committee headed by the MoF, with representatives of e MoHousing, « Caisse Centrale de Garantie », Banks and real estates associations
 - Operational management « Caisse Centrale de Garantie » a public financial institution supervised by the central bank

Background

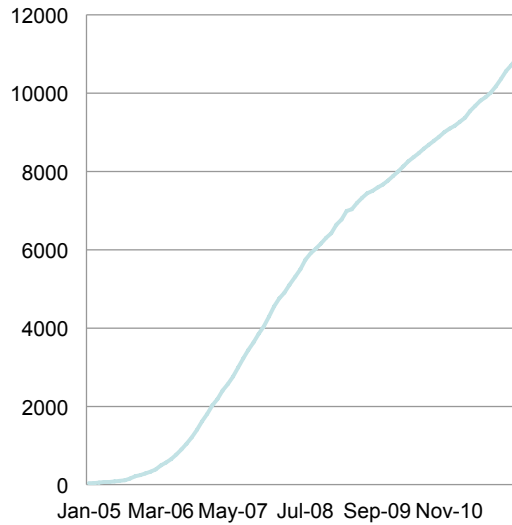
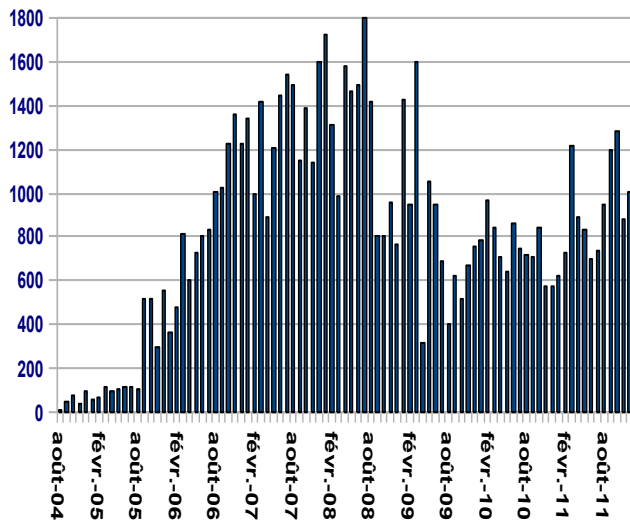
Main affordable products/programs

Housing Policy

Fogarim - Access to mortgage loans for informal income

Conclusion

Fogarim key figures: Production



Currently around 1200 beneficiaries each month
 Around 80,000 beneficiaires up to now

Outstanding guarantees :
 11 billions DH (1,3 billions \$)

Background

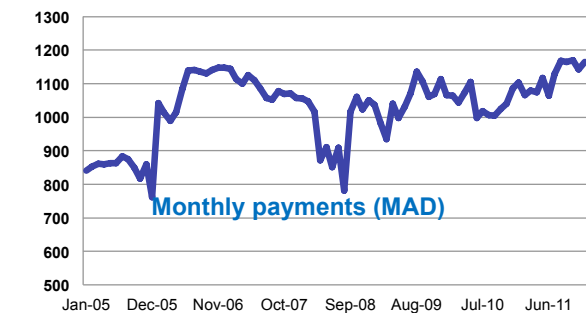
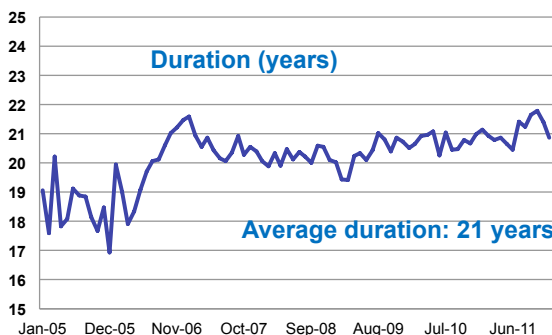
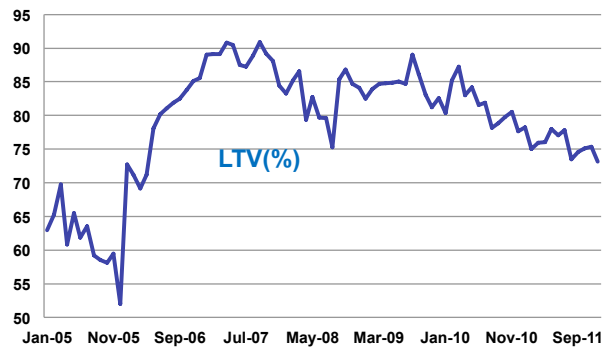
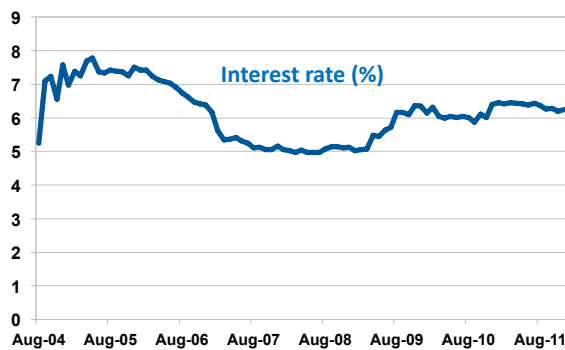
Main affordable products/programs

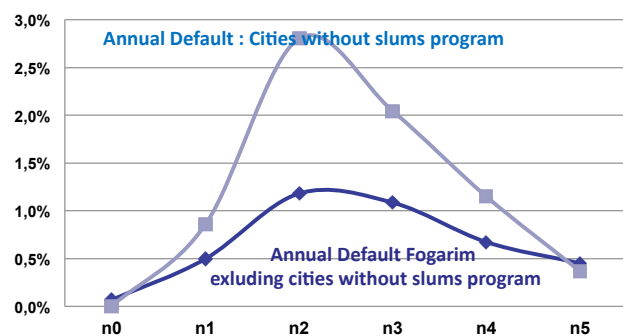
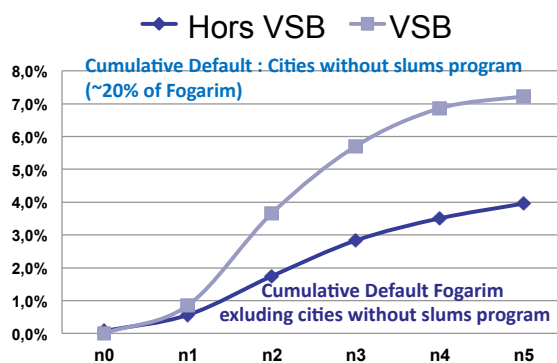
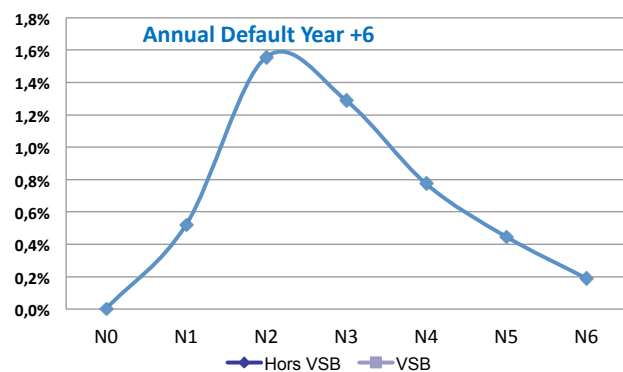
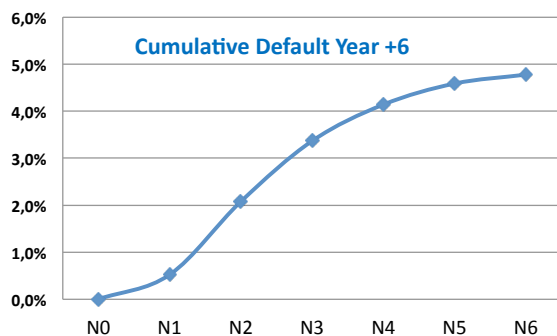
Housing Policy

Fogarim - Access to mortgage loans for informal income

Conclusion

Fogarim key figures: Characteristics



Background**Main affordable products/programs****Housing Policy****Fogarim - Access to mortgage loans for informal income****Conclusion**◆ Fogarim key figures: Default (6⁷ years generation of loans)**Background****Main affordable products/programs****Housing Policy****Fogarim - Access to mortgage loans for informal income****Conclusion****Funding instruments**

- Securities and bonds issued by Banks and major real estate developers
- Securitization effective since 2002 and amended in 2010 but still underused: issuance of 4 billions dirhams (~\$500 millions) and other expected operations.
- New covered bond act (draft) expected to be effective in 2013.
 - Double recourse: a claim on the bank (issuer) and a privilege on a cover pool of financial assets in priority to all other creditors (bankruptcy remote);
 - Cover pool:
 - Eligible assets: primary mortgage loans with LTV less than 80% for residential loans and 60% for commercial loans with additional limits (share in the total cover pool)
 - LTV can exceed 80% if a public guarantee fund is involved (Fogarim)
 - Minimum overcollateralization (5%) and coverage in stocks and flows
 - Specific supervision, controle and prudential regulations on the cover pool
 - Issuance limit (20% of total assets) with possible specific limits for bank with specific risk profile (bonus/malus)
- Other sources of financing real estate developers
 - New Housing contractual saving scheme: effective since April 2012:
 - Three years minimum saving, no tax on earned interest
 - New private equity law: expected to be effective by the end of 2012;
 - Real estate mutual funds project (expected for 2013): commercial and residential rental

Background	On the supply side
Housing Policy	On the demand side (Fogarim)
Conclusion	Other challenges

- On the supply side :
 - An integrated policy for housing taking into account activities zones : public equipment, employment,...;
 - Medium class households products ;
 - From national to local strategy :
 - the forecasted production should cover the potentiel demand on the national level;
 - adequacy between the demand and offer at the local level remains an issue
 - Urban zoning to be improved
- On the demand side : FOGARIM (Damane Assakane)
 - Moral hazard for « Fogarim VSB »
 - New risk sharing parameters: portfolio approach, better modulation of the risk premium according to risk parameters,...
 - Move the system to a mortgage credit insurance institution
- Other challenges : What role should play the government in mobilizing long terme source of funding for social housing?