THE GROWTH AND CHALLENGES OF MORTGAGE ORIGINATION IN GHANA

KAHAD ADAMU[1] and EMMANUEL KOFI GAVU[2]

Department of Land Economy, Kwame Nkrumah University of Science and Technology (KNUST), Kumasi, Ghana

[1]*kahadadamu1991@gmail.com*

[2]*ekgavu.cap@knust.edu.gh*

Abstract

Low levels of income coupled with the huge capital requirement to buy housing have brought about the crucial need for mortgages. Debt finance has been tested and found to be the most effective mechanism as opposed to equity finance in housing finance. A number of research conducted look at borrowers' constraints to access the large availability of these funds. Few studies however have focused on the supply side of the industry specifically ascertaining the industry's growth and constraints to their activities, thus forming the purpose of this study.

The data for the research was gathered through interviews and use of questionnaires administered to 6 of the major mortgage lenders between February and March 2014. The results show that there has been a significant growth of mortgage origination indicated by GH¢57.9 million in 2008 to GH¢341.7 million in 2013. The annual growth caused a steady increment in the ratio of mortgage-debt to GDP evidenced by 0.24% in 2008 to 0.39% in 2013. The performance of the mortgage industry is largely beset by lack of secure and transparent land title. Other constraints are macroeconomic instability, and lack of access to long term funds to originate debt instruments.

It is recommended that the bureaucracies and delays surrounding title registration should be reduced to accelerate the process of land and title documentations. Furthermore, institutions must consider using pensions and life insurance funds as alternative of long term funds. Finally, government must ensure to create a stable macroeconomic environment for lending (inflation, currency depreciation and base rate).

Keywords: Housing, Housing deficit, Mortgage, Mortgage Debt, Ghana

Introduction

In Ghana, demand for housing caused by the increasing population and urbanization has outpaced housing supply resulting in 1.7 million housing units presently required to close the housing deficit (Dauda, 2013). Many solutions are sought to address this problem, but successive governments have focused more on increasing the stock of housing supply (through both government and private sector led initiatives) to keep up with the high demand. It is a necessary course of action but not enough has been done to address the problem. Presently, the huge capital requirement to acquire hous-

ing creates a barrier for majority of households who fall within the middle to low-income brackets. This therefore requires government commitment to deal with ensuring households access to finance for housing acquisition.

Housing financing usually takes the form of equity and/or debt financing. Experiences from developed countries indicate that debt financing is an effective housing finance mechanism. But in developing countries (of which Ghana is not an exception) debt financing is always a challenge because of unstable macro and micro-economic factors. Rather most households prefer the use of equity financing specifically 'sweat' equity, remittances from abroad and barter arrangement to finance the construction of their dwellings (Erguden 2002; Asare and Whitehead, 2006). The insufficiency of such funds (equity) thus limits individuals in undertaking housing project in piecemeal often called the incremental construction. Studies have however criticized the incremental building construction as ineffective and expensive (Asare and Whitehead, 2006; Boamah, 2009). This construction option has many disadvantages; usually taking between 5-15 years to complete single dwelling; locking up funds in incomplete properties which could be effectively used in income generating enterprises (De Soto, 2000).

For these reasons, the existence of a mortgage market capable of providing loans for individuals on sustained basis to acquire their homes becomes relevant. The mortgage market in Ghana however is undeveloped and characterized by its records of low mortgage loan debt to Gross Domestic Product (GDP) ratio of less than 1%, showing a very large shortfall compared with the average of 70% and 50% in the US and UK respectively (Beck and Maimbo, 2012, pp. 112). The factors that adversely affect mortgage market development in developing economies (of which Ghana is of not an exception) are weak legal and regulatory framework; lack of access to long term funds; macroeconomic instability; culture barrier to mortgage market and homeownership; and low levels of income (Sander, 2005; Asare and Whitehead, 2006; Bank of Ghana, 2007; Asare, 2009).

This study therefore examines the growth and challenges of mortgage origination by particularly ascertaining the share of mortgage loan originations by each lender, assessing the mortgage debt to GDP ratio and examining challenges to mortgage lending activities.

Historical overview of mortgage lending in Ghana

The First Ghana Building Society (FGBS) was the first mortgage institution to be established under the Building Society Ordinance 1955 (Act 30) in 1956. It was the only mortgage institution that was granting home loans of up to 80% and 95% of housing costs to its clientele and civil servants respectively in that periods. According to Akuffo (2006), the Building Society failed to maintain its initial effort in mortgage lending for more than three decades. This situation has been attributed to the economic decay in 1970's marked by high inflation and currency depreciation and principally, the low savings culture of Ghanaians (*ibid*).

Also, in line with the 1970-1971 housing policy, the defunct Bank for Housing and Con-

struction (BHC) was established and mandated to perform the dual role of providing concessionary construction finance to housing developers and granting mortgages to prospective homebuyers. The BHC contribution to housing development was minimal to bring any significant improvement in the industry. The BHC existed and operated for a period of only fourteen years between 1974 and 1988 and provided mortgage loans at a value of ¢223,895,588 (US$ 994,075) to only 363 mortgagors (Donkor-Hyiaman, 2013).

In the early seventies, commercial banks in Ghana including Ghana Commercial Bank, Social Security Bank (now Societe Generale Ghana), Barclays Bank Ghana Limited and Standard Chartered Bank joined the mortgage market but failed to make huge impact. For instance, the Social Security Bank (SSB) on the average made only 16 mortgages for a year (Konadu-Agyemang, 2001) whiles Barclays Bank Limited and Standard Chartered Bank granted mortgages to only executives of certain multi-national corporations (Akuffo, 2006). These institutions quickly discontinued lending as operations were adversely affected by the global economic decline during the time.

In 1993, the state sought to create a two-tier integrated housing finance system under the Home Mortgage Finance Law 1993 (PNDCL 329). This brought about the establishment of the Home Finance Company (now HFC Bank) which had an initial start-up capital of US$8.2 million and US$16.2 million from the World Bank and Social Security and National Investment Trust (SSNIT) respectively. Under the same law, their mandate was to serve as a liquidating institution for participating financial institutions in the primary market but failed to work. The Home Finance Company (HFC) ended as a primary mortgage lender.

Presently, the mortgage market has five banking and one non-bank financial institutions as major lenders. These include HFC Bank, Fidelity Bank, CAL Bank, Ecobank Ghana, Stanbic Bank Ghana and Ghana Home Loans. These institutions offer mortgages ranging from home purchase, home construction and equity release mortgages.

Research methodology

This study focused on the six (6) of the major mortgage lenders in the country. These were HFC Bank Limited, Cal Bank Limited, Fidelity Bank Ghana Limited, Stanbic Bank Ghana Limited, Ecobank Ghana Limited and Ghana Home Loans (GHL). The purposive sampling technique was adopted in selection of the mortgage lending institutions. This was envisaged as primary mortgage institutions were those that could give authors insight into this phenomenon. These selected institutions presently offer mortgage products in varied forms to individuals. The study used data obtained through administering of questionnaires, interviews and published articles. A total of 6 questionnaires were sent out to the mortgage lenders. Response rate was fairly good as 4 out of the 6 institutions fully completed question regarding the total size of mortgage loan origination between 2008 and 2013. However, full response rate was obtained for questions concerning the constraints hindering lenders' activities. The choice of the period from 2008 to 2013 was premised on the absence of significant studies being conducted on mortgage originations over that period. Inflation rates for the period understudy was provided by the Ghana Statistical Service (GSS).

Results and discussions

Table 1: Mortgage debt Originations between 2008 and 2013 in GH¢ m

MORTGAGE LENDERS	2008	2009	2010	2011	2012	2013
Ghana Home Loans (GHL)	20	54.6	75.2	118.8	147.75	196.2
CAL Bank	-	-	4.5	5.2	12.3	17.5
HFC Bank *	37.9	50.13	57.55	70.7	93	118
Ecobank Ghana	-	2	4	6	8	10
TOTAL LOAN SIZE	**57.9**	**106.73**	**141.25**	**200.70**	**261.05**	**341.70**

Source: Field Survey, 2014
**Mortgage Loan Origination available in the HFC Bank Annual Report 2008, 2009, 2010, 2011, 2012 and 2013*

The table above indicates that there was significant growth in mortgage debt origination showing a cumulative growth of almost 500%. The total mortgage debt originated in 2008 was GH¢57.9 million made by Ghana Home Loans (GH¢20 million) and HFC Bank (GH¢37.9 million). In the year that follows, Ecobank Ghana joined and originated a mortgage debt of value GH¢2 million, GHL and HFC Bank originated GH¢54.6 million and GH¢50.13 million respectively resulting in a total of GH¢106.73 million. In 2010, CAL Bank also joined the industry and created a mortgage debt of GH¢4.5 million. Also, GHL originated GH¢75.2 million, HFC Bank made GH¢57.55 million and Ecobank Ghana contribution was GH¢4 million amounting to GH¢141.25 million in the same year. A total of GH¢200.70 million mortgage loan was originated in 2011 with contributions made by GHL (GH¢118.8 million), HFC Bank (GH¢70.7 million), CAL Bank (GH¢5.2 million) and Ecobank Ghana (GH¢6 million). An increase was also recorded in 2012 at GH¢261.05 million when GHL contributed GH¢147.75 million, HFC also made a mortgage debt origination of GH¢93 million, CAL Bank created GH¢12.3 million and Ecobank Ghana making GH¢8 million. Finally, out of GH¢314.70 million of mortgage origination in 2013, the share was GHL (GH¢196.2 million), HFC Bank (GH¢118 million), CAL Bank (GH¢17.5 million) and Ecobank Ghana (GH¢10 million).

Table 2: Average mortgage loan origination and share of mortgage origination by each lender

MORTGAGE LENDERS	AVERAGE MORTGAGE ORIGINATION (GH¢ MILLION)	SHARE OF TOTAL ORIGINATION (%)
Ghana Home Loans	102	53.97
CAL Bank	10	5.29
HFC Bank	71	37.57
Ecobank Ghana	6	3.17
TOTAL	**189**	**100**

Source: Authors Computations (2014)

The table above indicates the average size of mortgage loan origination by mortgage lenders and the mortgage market. Out of an average mortgage debt origination of GH¢189 million, Ghana Home Loans is the largest originator of mortgage debt in Ghana making an average origination of about GH¢102 million constituting a share of 53.97% followed by HFC Bank which originates about GH¢71 million of mortgage loans representing 37.57%. CAL bank is expected to originate mortgage debt of GH¢ 10 million (5.29%) and Ecobank Ghana also make GH¢ 6 million (3.17%).

Growth of Mortgage Market

In measuring the growth of mortgage market, mortgage debt origination to the Gross Domestic Product (GDP) is an effective tool to adopt. This study therefore computes and uses the results to determine the growth of the mortgage market in Ghana between 2008 and 2013.

Table 3: Mortgage Debt Origination to the GDP ratio between 2008 and 2013

YEARS	TOTAL MORTGAGE ORIGINATION (GH¢ MILLION)*	GHANA'S GROSS DOMESTIC PRODUCT (GDP) (GH¢ BILLION)**	MORTGAGE-DEBT ORIGINATION TO GDP RATIO (%)
2008	57.90	24.60	0.24
2009	106.73	44.46	0.24
2010	141.25	41.55	0.34
2011	200.70	63.70	0.32
2012	261.05	77.22	0.34
2013	341.70	88.75	0.39

*Sources: *Field Survey, 2014, ** Ghana Statistical Service, (2014)*

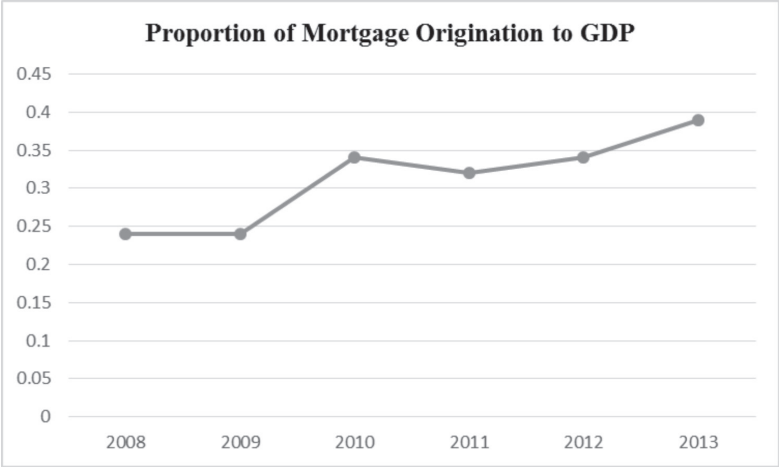
***quote amount in dollar currency but for the purpose this study, the amounts have been converted to the cedi equivalents using the exchange rate in each particular year.*

From the table, the mortgage industry recorded a mortgage debt to GDP of 0.24% in both 2008 and 2009 showing the least during the period. In 2010, it increased to 0.34% and later declined to 0.32% in 2011. The market again recorded an increase to 0.34% in 2012 and further made a record high of 0.39% in 2013.

The estimates show the mortgage market achieved growth during the period evidenced by the increase in mortgage debt to Gross Domestic Product (GDP) from 0.24% to 0.39%. This is however insignificant and showing a very large margin compared with the average of 70% in the USA and 50% in Europe. It is even very low when measured against the average of 10% in Africa as asserted by Becks and Maimbo (2014). This indicates that mortgage market in Ghana failed to make significant progression and can be considered to be at the infancy stage.

Figure 1 shows the trend of the Mortgage Loan Origination to the GDP in Ghana between 2008 and 2013.

Figure 1: The Proportion of Mortgage Origination to GDP form 2008 to 2013



Source: Field Survey, 2015

Challenges of Mortgage Lending in Ghana

During the survey, mortgage lenders were asked to respond to challenges affecting mortgage lending activities. Three challenges namely weak legal and regulatory framework, macroeconomic instability and lack of access to long term funds were identified to negatively impact on mortgage supply in Ghana. These problems were weighted to ascertain the greatest to the least challenges of the mortgage industry. A major challenge had a weight of 3 points, second weighed 2 points and least also weighed 1 point.

Table 4: Challenges to Mortgage Lending in Ghana

CONSTRAINTS	(3 POINTS) FOR MAJOR PROBLEM	(2 POINTS) FOR SECOND MAJOR PROBLEM	(1 POINT) FOR LESS CHALLENGE	TOTAL ACCUMULATED WEIGHTS
Weak legal and regulatory framework	9	4	3	16
Macroeconomic Instability	6	4	1	11
Lack of access to long term funds	3	4	2	9

Source: Field Survey, 2015

From the table 4, a major challenge affecting mortgage lending is a weak legal and regulatory framework with the accumulated weight of 16. It is followed by macroeconomic instability, also with an accumulative weight of 11. The least is lack of access to long-term funds evidenced by a cumulative weight of 9.

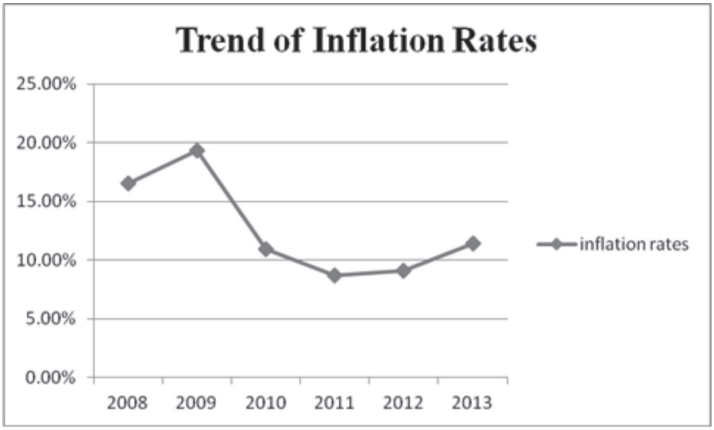
Weak legal and regulatory framework

The study revealed that a weak legal and regulatory framework significantly hinder smooth operations of mortgage lending in Ghana. It was found that foreclosure process usually takes longer duration of time and cost despite review of the current mortgage law (Home Mortgage Finance Act 2008, Act 770) taking away court proceedings in the process. In an interview with the respondents, the duration of foreclosure mostly takes between 9 to 12 months and is linked to the delays and bureaucracies surrounding deed and title registration of land or property.

Macroeconomic instability

Lenders generally revealed distaste for the current macroeconomic situation in the country characterized by high inflation, currency depreciation and increase in base rate. This current situation was found to adversely affected mortgage lending through increasing interest rates for cedi denominated mortgages to about 30%. This has the high likelihood of deterring most potential borrowers from taking mortgage loans. This has also led to the introduction and adoption of the dollar denomination mortgage. The charts below display the trends of inflation rates, the relationship and effect of inflation rate and both cedi and dollar mortgage interest rates.

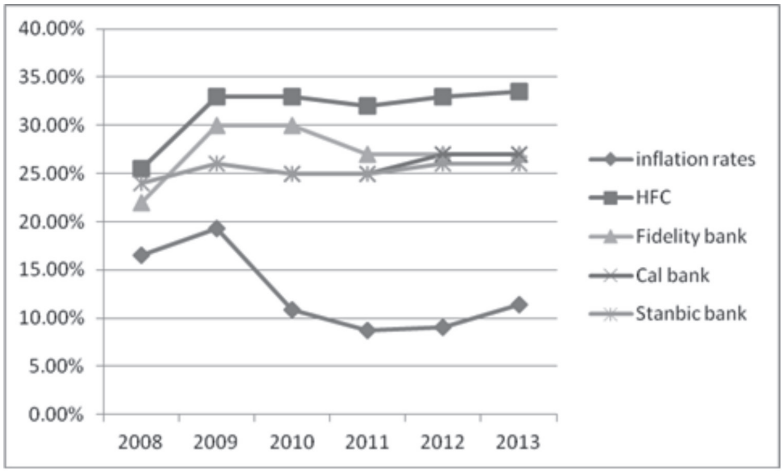
Figure 2: Inflation rates between 2008 and 2013



Source: Field Survey, 2014

Figure 2 shows that inflation rates were generally unstable and high during the period (this has been the situation for over two decades now). Inflation rate was recorded at 16.5% in 2008 and increased to 19.3% in 2009. It increased to 19.3 % marking the record high over the six year period. It decline to 10.9 per cent in 2010 and further decrease to 8.7 per cent in 2011 which was also the least rate recorded in the last six years. It however increased to 9.1% in 2012, rising again to 11.4% in 2013.

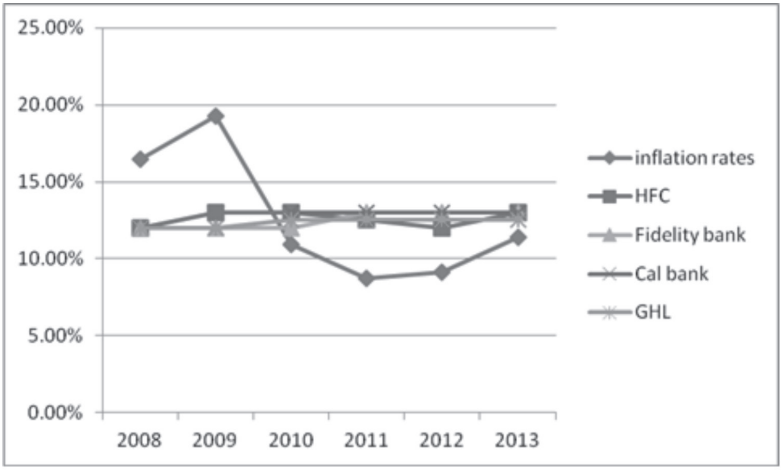
Figure 3: Relationship between cedi interest mortgage rates and inflation rates for each period



Source: Field Survey, 2014

Figure 3 establishes the relationship and effect of inflation rates on the cedi mortgage interest rates over the last six years. In 2008, mortgages priced in the local currency ranged between 22% and 25%, when the inflation rate was 16.5%. The increase in inflation rate of 19.3% in 2009 caused interest rate to also rise to between 24% and 33% in 2009. The mortgage interest rates in 2009 remained the same despite the decline in the inflation rates from 19.3% to 10.9% in 2010. In the following years i.e. from 2011 to 2013, interest rates were between 25% and 33.5% with an increase in inflation rates in the years. It is very obvious that inflation rates have had a massive effect on cedi priced mortgage, causing interest rates to increase. The cedi mortgage interest rates and inflation have a positive relationship indicating that an increase in inflation rate causes the cedi mortgage interest rate to increase.

Figure 4: Relationship between the dollar mortgage interest rates and inflation rates for each period



Source: Field Survey, 2014

Figure 4 shows the relationship between inflation rate and mortgages priced in the US Dollar (USD). It clearly depicts that inflation has no effect on USD mortgage interest rates as interest rates have been fairly stable over the period under review. Although inflation rates over the same period have been unstable and high, the average interest rates of the lending institutions ranged between 12% and 14%.

Lack of access of long-term funds

Lack of access to long term funds is another hurdle of mortgage lending in the country. Duration of mortgage repayments require long term assets that can match it to its maturity. The study however reveals that the mortgage market mostly rely on short term deposits for mortgage lending especially for the banking institutions. Ghana Homes Loans mainly use institutional equity to raise funds for mortgage lending. HFC Bank had issued bonds to raise capital in the past but now depends on customers' deposits (as the institution is now a commercial bank). In this regard the mortgage market is only limited to short term asset funds for mortgage origination.

CONCLUSION

The study has revealed the leader of mortgage debt lending as Ghana Home Loans, followed by HFC Bank, CAL Bank and Ecobank Ghana. The study estimated that there was a marginal growth of the mortgage market from 0.24% in 2008 to 0.39% in 2013. However, mortgage-debt to GDP ratio's recorded during the period was very low compared with the average in the continent. The mortgage market in Ghana is underdeveloped. The study has revealed that many challenges beset mortgage lending

in Ghana, but mortgage supply in particular is weakened by a weak legal and regulatory framework, macroeconomic instability and lack of access to long term funds. It is however recommended that the bureaucracies and delays surrounding title registration should be reduced to accelerate the process of land and title documentations. Furthermore, institutions must consider using pensions and life insurance funds as alternatives to long term funds. Finally, the government must create a stable macroeconomic environment for lending (inflation, currency depreciation and base rate). With the implication of the inevitable urbanization and population growth on housing, it is necessary that efficient and effective measures be adopted to ensure individuals can access mortgages to meet their housing needs. The establishment of a vibrant mortgage market becomes relevant and should never be overlooked.

REFERENCES

Akuffo A. (2006), the Role of the Specialized Housing Lenders. HFC'S Pioneering Role and Rationale for Conversion to Full Banking Activities; Sustainability of the Specialized lenders, The World Bank/ International Finance Corporation (IFC), Housing Finance Conference, Washington DC, USA

Asare, A., (2009) Private Housing Finance in Africa, Annual Conference and General Meeting of Africa union for housing finance, Joaquim Chissano international center, 8th-10th September, Maputo, Mozambique

Asare E. and whitehead C. (2006) formal mortgage market in Ghana; nature and implications, RICS Research series, volume 6, number 13

Bank of Ghana (BoG) (2007), the housing industry in Ghana; prospects and challenges, Bank of Ghana policy briefing paper, Accra.

Beck, Thorsten, and Samuel Munzele Maimbo, eds. (2012) Financial Sector Development in Africa: Opportunities and Challenges. Directions in Development, Washington, DC: World Bank.

Boamah, N.A. (2009) Secondary Mortgage Market (SMM): Is it Right for Financing Housing in Ghana? Journal of Science and Technology, Vol. 29, p. 17-27.

Dauda C., (2013) Government Secures Loan for 9000 housing units, Graphic online; meet-the-press series in Accra; available online at http://www.graphic.com.gh/news/general-news/704-govt-secures-loan-for-9-000-housing-units.html accessed on the 15th November, 2013

De Soto, H. (2000) The mystery of capital: Why capitalism triumphs in the West and fails everywhere else. New York: Basic books.

Donkor-Hyiaman K. A. (2013) the mortgage market in Ghana: the past, current and emerging, available online at http://www.modernghana.com/news/467617/1the-modern-market-in-ghana-the-past-current-and-html accessed on the 2nd June, 2013

Erguden, S. (2002), Housing for the Poor: Policies and Constraints in Developing Countries. Paper presented at the Conference on "Housing and Urban Development for Low Income Groups in Sub-Saharan Africa", Accra – Ghana

Konadu-Agyemang (2001) A survey of housing conditions and characteristics in Accra City, Habitat International 25: 15-34

Sanders B. A. (2005) Barrier to Homeownership and Housing Quality, Journal of Housing Economics, 14 pp. 147-152