RESIDENTIAL MORTGAGE FINANCE; A SOLUTION TO HOUSING DEFICIT CHALLENGE IN GHANA

By

Juliet Boabang, LLB (Hons)

2005 Faculty of Law

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DECLARATION

I hereby declare that this submission is my own work towards the Master of Business Administration (Finance Option) Degree and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the university, except where due acknowledgement has been mase in the text.(Source: Manual for Thesis Presentation for Master's and Doctoral Degrees, School of Graduate Studies and Research, KNUST 2015)

Juliet Boabang	…..……………………....	……………………….
(PG 9621113)	Signature	Date

Certified by:

Dr. Daniel Domeher	……………………..	….…………………...
Supervisor	Signature	Date

Certified by:

Dr. K.O. Appiah	……………………..	………..……………..
Head of Department	Signature	Date

ABSTRACT

Demand for housing in developing countries outstrips what is actually supplied. In Ghana the deficit is more than 1.5 million housing units and increasing by 150,000 units annually (UN habitat 2011).This increasing demand is largely by the low income earners who are priced out of the market. Private real estate developers provide only 10% of the new housing supply in the country, the remaining 90% being delivered by the householders themselves (Bank of Ghana 2007). Few Ghanaians can afford to acquire their own homes and most of them lack access to home loan facilities. Most banks neglect the home loan market and focus instead on short term lending with higher expected yields. This means that unless pragmatic and focused strategy is adopted to address the residential homes deficit in the country, the situation can only move from bad to worse.

Aside creating employment and providing related infrastructure leading to improved cities and broader economic development, the real estate market serves as the system for wealth creation and business development. Improved housing markets provide positive spillover effects (forward/backward linkages), enhances labor mobility (geographically) and productivity. It also impact on the health and productivity of a nation and enhances government revenue through property taxes and others alternative investment whiles providing a hedge against inflation. The sector can also foster credit access, collateralization, and growth of the financial sector by loan origination and securitization. For the average Ghanaian acquiring a decent and affordable accommodation is but a relish dream, nonetheless with the appropriate strategy, this dream can indeed become a reality. Financing homes is documented as the number one obstacle to home acquisition in Ghana. The current housing market in the country is underdeveloped, rudimentary and engulfed with divers challenges including the scarcity of long term finance for the middle to low income earners to access these facilities and the excessive cost of the few available formal

housing sources. The middle to low income earners who comprise the majority of home seekers are thus priced out of the market and have had to find alternative means to secure housing. The search for the most reliable, efficient and pragmatic means of home finance, lead straight to the mortgages market, which allow applicants to purchase homes of their choice and make installment payments. This housing system is indeed commended as the most capable and superior financier to housing (Bank of Ghana 2007). In most advanced economies home ownership is identical to mortgage home ownership. This means that it is the most readily available and accessible form of finance in the acquisition of homes in the advanced countries. A well functioning mortgage market will primarily increase funding for housing at competitive cost and pricing to consumers and thereby enable more consumers to afford this scarce but essential commodity. This research would be undertaken by a review of both primary and secondary data on mortgages in Ghana and USA, the Bank of Ghana Report on Housing (2007), previous research work and publications on mortgages by learned authors. Also the regulatory framework for the mortgage market in the country is examined.

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I am grateful to my supervisor, Dr Daniel Domeher for his timeless dedication during the supervision of this work. Also, special thanks to Mr. Ebenezer Arthur for her time spent in proof reading this work. Finally, the greatest thanks go to the Almighty God for his grace that has seen me through this exercise

DEDICATION

This work is first and foremost dedicated to the Almighty God, and to all who are passionate about equality and justice for all.

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INTRODUCTION

1.0 Background of Study

Demand for housing in developing countries outstrips what is actually supplied. In Ghana the deficit is more than 1.5 million housing units and increasing by 150,000 units annually (UN habitat 2011).This increasing demand is largely by the low income earners who are priced out of the market. In 2010 the National Housing Policy was drafted to give incentive to private sector housing providers to provide housing for all income brackets, notably through tax exemptions for certain items imported to support home construction in the country. The long term effects of these policies still remain to be seen as private real estate developers provide only 10% of the new housing supply in the country, the remaining 90% being delivered by the householders themselves (Bank of Ghana 2007). Few Ghanaians can afford to acquire their own homes and most of them lack access to home loan facilities. The banks neglect the home loan market and focus instead on short term lending with higher expected yields. This means that unless pragmatic and focused strategy is adopted to address the residential homes deficit in the country, the situation can only move from bad to worse.

Aside creating employment and providing related infrastructure leading to improved cities and broader economic development, the real estate market serves as the system for wealth creation and business development. Improved housing markets provide positive spillover effects (forward/backward linkages), enhances labor mobility (geographically) and productivity. It also impact on the health and productivity of a nation and enhances government revenue through property taxes and others alternative investment whiles providing a hedge against inflation. The sector can also foster credit access, collateralization, and growth of the financial sector by loan origination and securitization. For the average Ghanaian acquiring a decent and affordable accommodation is but a relish dream, nonetheless with the appropriate strategy, this dream can indeed become a reality. Financing homes is documented as the number one obstacle to home acquisition in Ghana, but an innovative, adaptable and cost effective mortgage industry, would help to solve the housing deficit challenge. The current housing market in the country is underdeveloped, rudimentary and engulfed with divers challenges including the scarcity of long term finance for the middle to low income earners to access these facilities and the excessive cost of the few available formal housing sources. The middle to low income earners who comprise the majority of home seekers are thus priced out of the market and have had to find alternative means to secure housing. The search for the most reliable, efficient and pragmatic means of home finance, lead straight to the mortgages market, which allow applicants to purchase homes of their choice and make installment payments. This housing system is indeed commended as the most capable and superior financier to housing (Bank of Ghana 2007). In most advanced economies home ownership is identical to mortgage home ownership. This means that it is the most readily available and accessible form of finance in the acquisition of homes in the advanced countries. A well functioning mortgage market will primarily increase funding for housing at competitive cost and pricing to consumers and thereby enable more consumers to afford this scarce but essential commodity. This research would be undertaken by a review of both primary and secondary data on mortgages in Ghana and USA, the Bank of Ghana Report on Housing (2007), previous research work and publications on mortgages by learned authors. Also the regulatory framework for the mortgage market in the country shall be examined.

1.1 Problem statement

The mortgage market in Ghana remains undeveloped against the background of a growing demand for affordable homes by the middle, low and high income earners. The few mortgage institutions that offer mortgage products are always careful to minimize the risks involved. As a result, they have strict criteria in selecting these clients for the mortgage offer. Many Ghanaians who want to own a home are unable to do so from their personal savings and incomes. The majority will require some form of financial assistance in the form of mortgage to own or build their own houses. The Ghana Real Estate Developers Association (GREDA) (1998) notes that only 5% of those who want to own a house can do so from their own resources. Another 60% would need some form of financial assistance while the remaining 35% are not capable of owning and building a house in their lifetime. Experiences from developed countries reveal that the mortgage industry is the most capable and superior financier of housing needs of a people (Bank of Ghana 2007). What are the real and perceived obstacles to the development of a viable mortgage market in the country? What innovative measures can be adopted to facilitate the growth of a vibrant mortgage market in the country? The research seeks to find answers to these questions. Previous research on housing has been focused on the broad Real Estate Finance in Ghana. Real Estate may be financed from diverse sources including mortgages. This research focuses on mortgage finance as a superior source of finance for the real estate development in the capital city of Ghana.

1.3 Objectives of the Study

The main aim of the study is to review the residential mortgage market in Ghana with respect to impact on housing provision in Ghana. In order to achieve this aim, the following specific objectives have been set;

1. To examine the stage of development of residential mortgage industry in Ghana

2. To ascertain the environment necessary to promote the growth of a mortgage market

3. To examine the penetration of the mortgage market in the housing sector of Ghana

4. To examine key challenges to residential mortgage market in Ghana.

1.2 Research Questions

The research seeks to look at the following questions;

1. How active is the residential mortgage market in Ghana?
2. What economic fundamentals are necessary for the development of a mortgage market in Ghana?
3. To what extent has residential mortgage sector penetrated the housing market in Ghana?
4. What factors inhibit the development of residential mortgage in Ghana?

1.4 Significance of the Study

The research study could provide information to both prospective and existing mortgage providers to come out with more affordable and accessible products that will enhance the provision of housing in Ghana. It will also be beneficial to the Government in coming out with policies to regulate mortgage provision in such a way as to improve affordability and also to protect mortgage consumers against high and exorbitant mortgage service charges as well as to secure the mortgage providers against risks associated with the mortgage industry in Ghana.

1.5 Scope and Limitation of the Study

The study looks at the development of residential mortgage market in Ghana in relation to housing provision in Ghana. Emphasis was on mortgage activities in Greater-Accra. Accra, being the capital city of Ghana has a lot of housing demands due to migration and the huge presence of expatriates in the city. The operations of five key residential mortgage companies in Ghana were considered. Limitations to this study include time factor and finance which limits the scope in terms of population sample size. However, a sizeable population size was used to allow reasonable generalization of research findings.

1.6 Research Methodology

This is a brief description of the methodological approach for this work. The study will rely on both primary and secondary data. The research applies both qualitative and quantitative tools in data gathering and analysis. This study was based on review of literature on similar topic and interview of key personnel in the residential mortgage and housing industry. Primary data will be collected through the administration of questionnaire and through both formal and informal interview of prospective mortgage applicants and some personnel in the mortgage industry. SPSS was used as software to analyze primary data gathered through pre-coded questionnaires in order to draw conclusions to the study.

1.7 Organization of the Study

The Report is organized into five chapters. Chapter one deals with the introduction, problem statement, objectives of the study, methodology, limitations among others. This serves as the general background to the study. Chapter two seeks to review existing literature relevant to the topic under discussion. Chapter three looks at the methodology adopted for this study into details. Chapter four research into the topic in relation to the scope of the study. It deals with data presentation and analysis. The final chapter concludes the study based on the research findings.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter seeks to review other articles on residential mortgage in Ghana. It looks at housing finance systems and delivery in Ghana, the concept of mortgage, the mortgage market structure, the secondary mortgage market and its development, the state of the mortgage market in Ghana, the role of the government in ensuring the development of the residential mortgage market in

Ghana, the factors that affect the development of a vibrant residential mortgage market is also reviewed as well as the antecedents to the US financial crisis.

2.1 Housing Finance Systems in Ghana

There is a clear severance between the housing sector and the formal finance market in Ghana (Asare and Whitehead, 2006). Leod, (2001) noted that there is mounting gap between poor people living in the informal sector and the formal finance sectors. As a result most households in Ghana use their own long -term savings, sweat equity, barter arrangements; and remittances from family members abroad to build their houses (Boamah 2010). Debrah et al., (2002) noted that this process of housing development takes between five to fifteen years to complete; housing finance thus remains in an obsolete state compared to the rapid development of banking (Jaffe and Renaud, 1996). Smet (1996) noted that this approach to housing provision is both costly and unproductive. The great deal of time required by most families to complete their houses greatly increases construction costs and also locks up funds that could be invested in income-generating ventures in properties for several years without any returns. In all economies long-term housing loans creates major credit, interest rate and liquidity risks. In Ghana, high inflation rates have shored up this risk even further. Most banks are therefore unable to invest in the long and medium term, which have had an adverse impact on housing investment. Financial institutions such as the Social Security Bank (now Societe General) and First Ghana Building Society (FGBS) some years back made attempts at developing formal debt finance systems for housing development in Ghana but they did not succeed partly because of the absence of long-term sources of funds and economic volatility, which are obstacles to a vibrant mortgage market. In some cases lenders have been willing to offer long term housing finance, but in order to survive, the yields on investment must warrant the risks involved and so high interest rates are charged on mortgage loans.

Lenders, resort to rigorous underwriting criteria, such as a higher equity requirement of borrowers, security of title to land, a sustained and reliable monthly income, consent of borrowers' employers, and the location of properties in prime areas as a means of minimizing risk and mitigating losses. The security requirement of lenders has made it impossible for most potential mortgagors to qualify for mortgages in Ghana. The traditional bank lending system, based on asset securities assumes that collateral should be restricted to legally recognizable property and certifiable earnings (Karley, 2002). This definition of security for loans inadvertently excludes the vast majority of Ghanaians living in the informal settlements, and who depend on livelihood generated within the Ghanaian informal economy as well as the vast majority of property owners in the country whose title have not been formalized or perfected. Alternative asset bases that may offer far greater security in the long term are not understood or recognized as effective indicators or predictors of "safe" lending. The prerequisite for evidencof clear land title have excluded many potential mortgagors in Ghana despite the fact that they may have valuable security of tenure through customary rights.

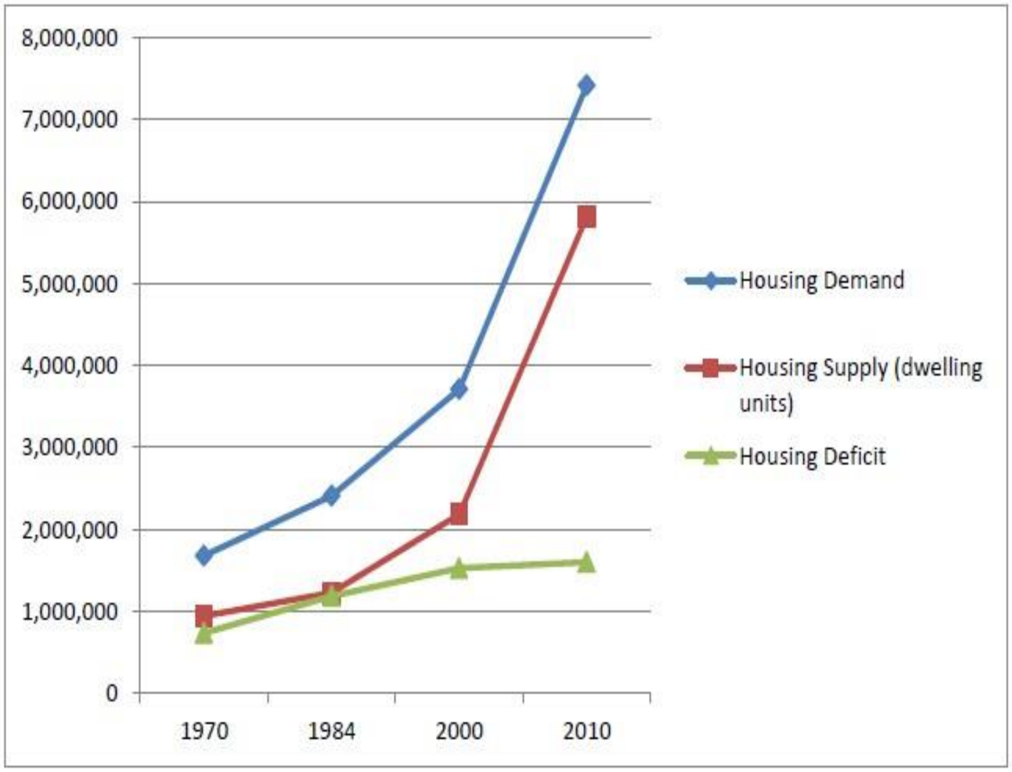
The Government of Ghana between 1957 and 1966 invested £G 9, 100, 0002 in reasonably priced housing and also granted £G 2,150,000 as concessionary housing loans to households (Government of Ghana Development Plan 1959). Also in 2004 and 2005 the government of Ghana respectively invested ¢77,728.24 and ¢125,513.4 (in millions) in the housing sector (Ghana Statistical Service, 2007). However, all these attempts by government have proved largely insufficient in solving the housing deficit needs of Ghanaians. HFC (Now HFC Bank) in 2002 estimated that the country had an unsatisfied housing need of 1,232,835 units, with an unsatisfied annual demand of about 108,000 units. The investments by government in housing delivery have made little impact in solving the housing finance problems in the country. Table 2.0 and Figure 2.0 show the housing demand and supply trends in Ghana.

Table 2.1 Housing Demand in Ghana 1971-2010

Year	Housing Demand	Housing Supply (Dwelling units)	Housing Deficit
1970	1,678,296	941,639	736,657
1984	2,410,096	1,226,360	1,184,636
2000	3,708,250	2,181,975	1,526,275
2010	7,417,607	5,817,607	1,600,000

Source: Compiled from GSS 2005, UN-Habitat and 2010 Ghana Population and Housing Census Report

Figure: 2.0 Supply of Housing in Ghana



Source: Compilation from Ghana Statistical Service (GSS), 1960, 1970, 1984 and 2000 Population Censuses, (NATAG, 2012)

2.1.1 Housing Delivery in Ghana

The weak political atmosphere of the mid 1980s in Ghana hampered the lodging business sector as individuals were reluctant to construct. The administration in the meantime did not have the resources to give sufficient accommodation to the masses. Ghana does not have a complete Housing and Shelter Policy as the draft has stayed in that state for years (Bank of Ghana 2007). There are no viable laws controlling the housing business, leaving home seekers at a disadvantage when issues of financing, quality and conveyance crop up. Additionally, Ghana's housing industry is in a complete disorder (Boakye 2010). The 2000 Population and Housing Census reported the presence of around 3.88 million home units in Ghana, with not as much as half described as houses. As much as fifty percent of housing units were built with low quality mud bricks and earth, mostly with thatched roof and poor floor construction materials. Moreover, 74,000 Kiosks and containers housed several hundred thousand individuals. Great number of individuals in urban areas slept on pavements, walkways and on streets (Bank of Ghana 2007). This shows how deplorable the state of housing is in Ghana. It is therefore imperative that the opportunities that residential mortgage offers are fully exploited to address the home ownership challenge faced by most Ghanaians.

2.1.2 Government's Involvement in Housing Delivery in Ghana

There have been various attempts by governments towards the provision of housing in Ghana. The focus of the various policies, however, differed and depended typically on the political ideology of the executing government. During the colonial era, the focus was on the provision of houses for personnel in the Military and the Police Service and so the government constructed various Military and Police barracks across the country and also constructed bungalows for senior civil servants (Owusu and Boapeah, 2003). The attention of the then government was never on provision of affordable houses for the masses and so housing delivery was largely dependent on the efforts by the private sector. After independence the Nkrumah government concentrated on direct housing provision and the provision of soft loans for individuals to access homes and the housing market liberalization. The liberalization of the housing sector in 1987 led to the establishment of the Ghana Real Estate Developers Association (GREDA) in 1988 and the establishment of the HFC in 1991. The burden of housing delivery was therefore vested in the private sector. However, formal finance institutions have made negligible contribution to housing delivery in Ghana. The Commercial

Banks have not been attracted to housing finance as they prefer investing in Treasury Bills and Bonds with minimal risks and great returns (Akuffo 2006). Although there is potentially large market size, mortgage products in the country are inadequate as only few banks provide funds for housing investment, mostly to their few wealthy customers. The banks investments in the housing sector are thus insignificant because of high inflation and liquidity risks involved in that market.

Affordable Housing of the Kuffour's Administration

The public housing sector did not see much expansion between 1985 and 2000. The NPP government sought to bridge the housing supply gap by the commencement of about 20,000 affordable housing units in 2001. In 2007 about 4,500 units ranging from, single and two bedroom apartment began at Borteyman and Kpone in Greater- Accra, Asokore Mampong, Kumasi in the Ashanti region, Akwadum site Koforidua in the Eastern region, Tamale, commenced and were scheduled for completion by June, 2009. The main target group for this scheme was the civil and public servants. This scheme was however, discontinued by the NDC government when it took office in 2009, however the Mahama administration has now began completing the affordable housing project commenced by the NPP government.

NDC Administration Housing Projects

The NDC government in 2009 made attempts at improving the housing delivery in Ghana. Initially the government sought to build over 300000 housing units within five years period by collaboration between the private and public sector in the project called STX housing project, which was to serve the housing needs of the low to middle income groups. As part of the program, the project was to develop majority of the housing units in all the ten regional capital of the country.

The Agreement was between the Government of Ghana and STX Engineering and Construction Ghana limited. Unfortunately, the STX Housing deal was cancelled because of some misunderstandings among the partners. The NDC government also sought to initiate the Guma Group Housing Project and the Shelter Afrique Housing Project. All these initiatives were interventions by Government to increase the housing supply in Ghana, albeit unsuccessful

2.2.0 The Concept of Residential Mortgage

A mortgage is the conveyance of a legal or equitable interest in property with condition for its redemption, upon repayment of a loan or the performance of some obligation (Megarry and Wade 2000). It is a loan secured by some specific real estate property. A mortgage essentially comprises of two things: a promissory note and a deed. The agreement is governed by the law of contract and other relevant legislations such as the Mortgages Decree, 1972 (N.R.C.D. 96) and the Home Mortgage Finance Act, 2008 (Act 770). Housing delivery requires many interdependent components such as land, building materials, infrastructure, policies, building regulations and more importantly the finance component. Finance is at the core of housing delivery because of the huge financial requirements for its production fortunately, mortgage loan offers a readily available source of finance that could be accessed for housing delivery in Ghana.

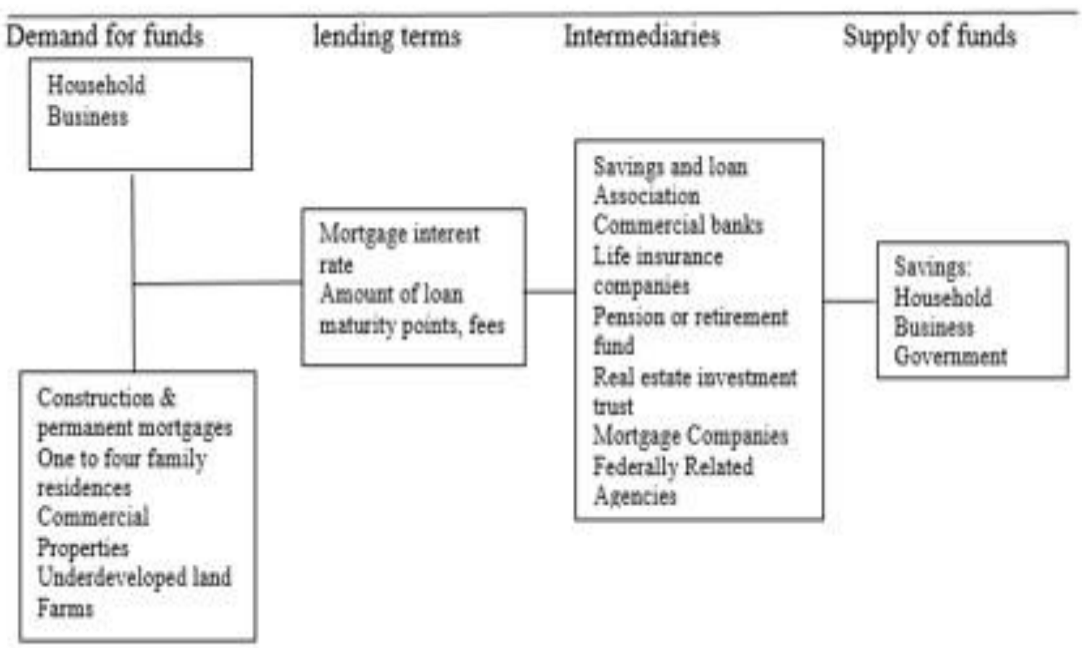
2.2.1 The Mortgage Market in General

Mortgage market focuses on loans that are collateralized by real estate structures and land. The mortgage market can be generally categorized into two; the residential mortgage market that finances the purchase of houses and the commercial mortgage that finances all other real assets for business purposes. It is a major means of raising funds to finance the purchase of houses in many parts of the world. However, there appears to be little activities in this area of finance in Ghana. According to Ayitey et al (2010), many financial institutions are unwilling to venture into long-term investments because of liquidity problems, and the haven they find in Government short-term securities, which, invariably, is risk free. This has created the shortage of supply of mortgage products. House purchase requires large capital outlay for the owner-occupied or landlord, and can rarely be financed out of income, thus borrowing is necessary for effective demand for housing.

2.2.2 The Mortgage Market Structure

Different institutions combine to form the mortgage market structure. A developed market structure has the depository institutions and the mortgage banks. The depository institutions include building and loan societies, commercial banks, savings banks. These institutions form the principal mortgage institutions as they engage in mortgage creation and holdings. The mortgage banks often operate in the secondary market where they create mortgages and also sell these mortgages to a final investor. The diagram below shows the structure of the mortgage market. It identifies the major participants in the mortgage market, and how the supply and demand of mortgage funds interacts to set the terms for mortgage lending and borrowing.

Figure 2.1: General Structure of the mortgage market.



Source: (Brueggeman and Fisher 1997)

2.2.3 Evolution of the Secondary Mortgage Market

This market came about as a result of the need for a market where originators could sell mortgages and restock funds to originate new loans and the need for a market mechanism to facilitate geographic flow of funds to allow lenders in regions where demand for financing far exceeded available deposits to sell mortgages to other intermediaries in regions with surplus savings. Prior to 1970s mortgage lenders relied on deposits to fund their businesses. This worked well for the four decades following the great depression of the 1930s. During this time interest rates paid on deposits was limited to 5.5% and this allowed long term loans to be made at no more than 7-8% as lenders were assured of a stable cost of funds. Interest rates began to escalate in the late 1970s to change the dynamics. The growth of mortgage market before the 1970s was restricted because of certain prevailing factors including, the lack of uniform documentation of mortgages, lack of acceptable insurance protection against loan default. For a long time originators sold mortgages directly to investors who then in turn created large pools of their own and issue securities. Many large mortgage originators now place mortgages in pools and sell securities to various investors. There is no need now to create and hold mortgages in their own investment profile and bear interest rate risk, and so their dependence on deposits is very much reduced. Government established a number of agencies to facilitate flow of capital nationwide by creating liquidity in the market and promoting home ownership among the middle class. These agencies included the, Federal housing administration and the Federal National Mortgage Association.

Through government programs, minimum standards were set for underwriting, loan appraisal, building specification, and also protection was guaranteed for mortgage investors from losses through default by insurance or loan guarantees. With these initiatives investors in mortgages could acquire large quantities of loans and expect to receive interest and principal payments with little or no risk. These agencies actually issue their own debt in the public markets and use proceeds from these sales to buy loans from loan originators. Even though private today, they are seen as a quasi public/private entity that enjoy the full faith and credit backing of the U.S. government. Moreover, the Government National Mortgage Association (GNMA) was established to manage and pay back mortgages previously acquired by FNMA, and guarantee mortgages. Guaranteeing timely payment led to an expansion in the secondary market as this enabled originators to pool mortgages and issue securities which were collateralized by the mortgages.

Some of the reasons for the growth and importance of asset backed securities are that for commercial banks it reduces need for bank capital to meet capital adequacy requirements and provides new source income technique for restructuring asset mix on balance sheet and altering risk profile of bank, and a new technique for long-term liquidity management. Increase balance sheet liquidity reduces cost of sourcing additional funds for lending. For investors, securitization increased supply of new type of fixed income security with different risk/return characteristics. Several types of mortgage related securities have been developed over the years including Mortgage-backed Bonds (MBBs), Mortgage pass-through securities (MPTs), Mortgage paythrough Bonds (MPTBs) and Collateralized mortgage obligations (CMOs).

Some differences exist between MBB and MPT. Regarding MBBs, issuer bears the prepayment risk by virtue of overcollateralization requirement. As prepayments occur, more mortgages must be placed in the pool With MPTs, security holder bears the prepayment risk as all prepayments are passed through to investors. Hence MBBs should be priced to have lower yields than MPTs. It was based on the notion of investors buying a security interest in a pool mortgages with interest and principal passed through to investors as received from borrowers. Investors were attracted to these securities because default risk was minimized as a result of insurance by FHA. They were viewed as riskless or similar to government securities. Such securities have repayment characteristics of bonds. However repayment of the outstanding principal could occur at any time e.g when a borrower defaults, refinance or repay the outstanding balance. The process of converting mortgage loans and other assets into securities tradable in the secondary markets is called securitization. With the growth of the market for such securities, and expertise in creating them, the process was extended to a wider, range of other assets. The creation of asset backed securities and markets for trading them provide an important example of financial innovation. The essential requirements for creating asset backed securities include a clearly defined asset that yields a regular future stream of income payments, knowledge of the risk characteristics of the assets, a predictable stream of income, a sufficient large pool of similar or identical assets to create a bond issue of interest to investors.

2.2.4 Secondary Mortgage Market in Ghana

Secondary mortgage market is a market where mortgage loans and servicing rights are bought and sold among mortgage originators, mortgage securitizers and investors. It is a mortgage large and liquid market. The secondary mortgage facilitates in making credit equally available to all borrowers across geographical locations.

Experts have called for the development of the secondary mortgage market in Ghana as they believe it would be a panacea to the housing problems in Ghana. Housing markets are inherently local in nature, but financing housing need not be, regions that are growing but do not have much savings should be able to get mortgage funding from regions with excessive savings. This is an advantage of the secondary mortgage market as its sale of mortgage backed securities ensures that funds from across the globe are readily available to regions with funding deficit. Although essential, the secondary mortgage market cannot function properly until there is healthy and well developed Primary Market. Mortgage securitization is the process whereby financial intermediaries' pool and package loans for sale as securities. Many assets can be securitized including loans, real estates and other portfolio of investments. These investments are pooled together and then securitized into divisible securities for onward sales. Securitization of bank's loans and other assets means raising new funds and reducing a bank's risk exposure. Bhala (1991) describes securitization as a "transforming" transaction whereby an illiquid loan asset is changed into a liquid marketable security. It is a carefully structured process whereby loans and other receivables are packaged, underwritten and sold in the form of securities. It has become the grease that keeps capital markets spinning. In the last few decades, securitization has rapidly evolved as the financial tool that is enabling financial institutions, industrial corporations etc to liquefy and manage their Balance Sheets, shed off unwanted credit risk and to raise new sources of capital (Ansah 2004). Figure 2.2 below outlines the processes of mortgage securization.

Figure2.2

Source: (James 2015)

2.3.0 Government's involvement in the Mortgage Market in Ghana

The role of State in the Mortgage Market is dependent on the nature of its economic system (Mostafa, et al 2006). According to Brown and Matysiak (2000) as reiterated by Ayitey et al. (2010), between 50% and 60% of the wealth of every country is in real asset. De Soto (2000) also recaps that a nation's ability to facilitate the liquidation of real assets into cash for productive ventures is of extreme importance for its rapid economy development. Housing provision is advantageous to any economy or state. It is a source of employment to the youth, guarantees good citizenry, facilitates other economic ventures and promotes the general security of a country. Ghana attempted to build the mortgage finance market through the establishment of, Home Finance Company and First Ghana Building Society (FGBS) but their mortgage activities were hampered by relatively high costs of borrowing (BOG 2007).

HFC operated in the secondary market acting as the liquidating institution for the participating financial institutions with anticipation that this would facilitate the emergence of a vibrant primary mortgage market. This anticipation however, did not see fruition as commission charges appeared unattractive to participating financial institutions and the stiff competition from high yielding government paper stifled the growth of the primary market. The situation was further aggravated by the introduction of indexed mortgages which was to resolve the high risks from inflation and currency instability faced by mortgage lenders. HFC later moved to the primary house-financing market as a mortgage company, offering a range of services as the unfavourable macro environment would allow. HFC is currently a universal bank offering a number of products and services inclusive of mortgage loans.

2.4.0 Factors affecting the Development of a Vibrant Mortgage Market in Ghana

Ghana is noted for informal financing approach to the provision of housing (BOG 2007). Attempts to regulate the system of financing housing have been weakened by an unstable macroeconomic environment and a porous legal and regulatory environment. Indeed, an efficient and sustainable mortgage industry thrives on activities in the secondary mortgage market where mortgage-backed securities (MBS) are traded. Such a system links investors, housing suppliers and house buyers (households) in a mutually beneficial relationship. This system is absent in Ghana and this partly accounts for the slow growth of the mortgage market in Ghana.

2.4.1 Supply Side Factors

Inflation and exchange rate determine the cost and supply of mortgage products. In an unstable macro environment, lenders face greater risk in terms of the likely depreciation in value of the regular repayments on loans. Furthermore, the uncertainty that is created by the persistent instability of a currency due to unstable inflation impedes access to external long-term finance for mortgage lending. Ghana’s economy is plagued by an unstable macro environment, evident by astronomical rises in inflation the level and its volatility , moreover the persistent swings in the value of the cedi against the major trading currencies on the foreign exchange market exacerbate the risks involved in offering mortgage loans. An efficient mortgage market requires a legislative framework that ensures smooth execution of property transactions and foreclosures.

Unfortunately, the country’s legal system is inefficient, as it is characterized unreasonable delays of procedures. The registration processes of land are likewise cumbersome, resulting in delays in securing perfected titled documents, which is a prerequisite for mortgage loans.

2.4.2 Demand Side Factors

Demand for mortgage products in Ghana is generally low because of the general low income levels in the country. This means high mortgage payment-to-income ratio for many loan applicants, thus pricing them out of the market (BOG 2007). Additionally, estate developers estimate prices in foreign exchange primarily as a hedge against currency depreciation which also served as a disincentive to demand for mortgage. Since mortgagors are required to make payments in foreign currencies. This often results in increased repayment cost to mortgagors. Also, cultural and societal norms have created apprehension about the use of loans or "debts" to construct one's residential property. Moreover, most housing and other landed property in Ghana are not properly registered; and hence transfer of title becomes impossible. This is what is referred to as "dead capital" by De Soto (2000) that many possessions in developing countries are poorly documented and thus cannot be readily turned into capital, collateral or traded outside the domestic market.

2.4.3 Economic Constraints in the Residential Mortgage Market

The agricultural sector is the dominant sector in the Ghanaian economy in terms of its GDP, employment, and foreign exchange earnings. The real GDP growth rate experienced a steady growth from 3.7% in 2000 to 7.3% over eight years, but declined to 4.9% in 2009 and stood at 7.2 as at 2012 (ISSER, 2012). The rate of inflation dropped from 40% in 2000 to about 11.5% as at the beginning of year 2005. Though this figure dropped to about 10.5% in 2007, as at the beginning of year 2008 it inched up to 12.7%. Inflation in Ghana stood at 16.6 as at March 2015 (BOG, 2015). The per capita income of Ghana stands at $766.05 as indicated by the World Bank Report, 2015 with over 28.5% of the population living below the poverty line. Table 2 gives a trend of the per capita income of the country over the years. Stable economic environments are necessary for a vibrant residential mortgage market. This includes a stable macroeconomic environment-that is a low inflation and interest rates as well as a stable currency. High inflation has a negative effect on housing finance due to its consequent effect on interest rate charged by lenders on mortgages. In the real world it is not just the prevailing inflation rate that matters but also the "expected trend of inflation" over the period. Inflation expectation is a significant part of the lending rate, and where the former are high the latter will diverge considerably from the prime rate." The trend of Ghana's per capita income is as shown on Fig 2.3

Figure2.3

2.5.0 United States Mortgage Market Crisis

This section discusses the view of various authors as to the cause of the credit crisis in the USA. The mortgage market before the crisis was vibrant and very active with good prospects but the immoderate activities of the banking institutions, rating agencies, and insurance companies in the USA pushed the whole financial market into a global meltdown.

2.5.1 Financial Innovation and the US credit crisis

As the financial market grew there were various novelties that emerged to propel the mortgage market. Lea (2008) noted that the securitization of mortgages is now a major feature of the mortgage sector and that since the 1990's mortgage financing changed from the portfolio lending model to that of securitization. The introduction of economic novelties of banks led to the packaging and selling mortgages to institutional investors in various forms. Banks transformed Mortgage backed securities into very complex derivative instrument like collateralized mortgage obligations. The issuers of collateralized debt obligations bought different mortgage backed securities and pooled them together with other asset backed securities which were largely backed by credit card loans, auto loans, business loans and student loans. The liberalization and novelty in economic instrument of asset backed securities grew immensely from 2005 through to the middle of 2007. The structure of assets underlying these economic instruments changed to higher credit risk mortgages and loans when they were pooled together with other properties. Thus the degree of complexity and blurredness was greatly increased as it made it difficult to mark out the true value of the fundamental or underlying mortgage assets. Investors did not fully understand the dynamics which were at work, and could not therefore make informed judgment on the securities they purchased.

2.5.2 Rating Agency Functions

Rating agencies role in a mortgage security market cannot be overemphasized. They are the financial gate keepers that guarantee the credit worthiness of mortgage credit companies and mortgage backed securities. During the period leading up to the financial crisis, rating agencies became too liberal in their rating of structured products. These agencies including Standards and Poor, Moody Investors Services and Fitch Rating are blamed for failing to identify subprime mortgage investments risks. The standards and modeling approaches of rating agencies which have been used to judge consumers ability to pay back loans failed, as they gave incorrectly high ratings on risky securities. A financial historian, Wright (2007) observed that the regulators allowed Fannie

Mae and Freddie Mac, to take on excessive risk and leveraged themselves to the halt as they allowed credit rating agencies to give high ratings on loans of doubtful quality.

2.5.3 Insurance on Loans and Securities

Insurance on mortgage- backed securities caused an aggravation of the financial crisis. This was so because the insurance on risky investment such as the subprime loans, gave confidence and validated the high ratings assigned by rating agencies on some dubious securities and more significantly insurance were sold on securities themselves. Following the boom in the real estate market, there was corresponding increase in the number of guarantees provided by these insurance companies. AMBAC for instance guaranteed more than half a trillion worth of securities. Thus insurance on securities against losses allowed debt to get the highest rating and also led to a large market for mortgage securities by increasing investors' appetite to purchase insured securities with risky underlying assets.

2.5.4 Principal Agent Problem

Mortgage securitization exploited the relationship between ultimate investors (principal) and the managers of the investor's asset (agent). Securitization thus created an incentive problem also called the agency problem. This is where the loan creators who were supposed to act on behalf of the interest of the principal (investor) lacked the willingness to do so because risk had been transferred to the investor from the originators. As the creators of loans did not bear the ultimate risk this leveraged them to issue out more loans without taking necessary steps to make sure that the borrowers were capable of paying back these loans. Considerable part of risk surrounding securitization were borne by investors and so originators faced with only a pipeline risk of holding loans for months until the risk were passed on and so originators had little motivation to be cautious in approving loan applications. Information asymmetry existed among key players since sellers had more information than buyers about what they were selling especially in the subprime incident. Indeed, investors increasingly did not know the values of their securities (Bordo 2007).

2.5.5 Declining Underwriting Standards

Mortgage credit companies as well as banks are equally responsible for the mortgage crisis. MacCarthy (2008) notes that financial institutions erred by lowering the underwriting standards for loan applications by allowing their self-indulgence to take a greater part of their judgment. Chief economist, Martin Wolf also emphasizes that origination of loans with increasingly poor quality and selling to unsuspecting investors contributed to the crisis. Mortgage brokers offered favourable rate, no documentation mortgages, piggy banks mortgages and NINJA loans. All these loans were granted under an erroneous assumption that background checks were not necessary because house prices could only rise.

2.5.6 Decline in House Prices

Rising housing price had propelled the mortgage market growth but this could not be sustained as house prices began to fall. The downturn in house prices triggered the mortgage crisis as the burst resulted in a correlated wave of defaults and its rippling effect in the economy. If there were no remarkable drop in the prices of properties there would not have been serious consequences on the mortgage sector (Neil & Johnson, 2008).

2.5.7 Summary of the contributing factors to the mortgage crisis

The US mortgage market entangled itself in a net of interconnected factors running from the primary mortgage market to the mortgage security market. The lowering of mortgage underwriting standards, low interest rate pursued and the general non- recourse housing loan system increased the volume of loan origination to applicants. Also, the removal of mortgage loans off the balance sheet of originators reduced the motivation of loan creators to screen loan borrowers and this resulted in the sale of wobby loans to mortgage security companies. In anticipation for high yields on investments, investors had pumped large amount of money into the market by purchasing mortgage backed securities although they did not appreciate the misleading ratings on these securities. Insurance on securities with poor underlying asset does not make those securities any better, as the risk of defaults is merely transferred to insurers.

Thus, when house prices fell in 2006, it led to defaults, foreclosures, bankruptcies and write-offs as well as a global credit crunch. Ghana residential mortgage industry must note the events leading to the credit crisis to draw important lessons from the US credit crisis to such pit falls.

CHAPTER THREE

METHODOLOGY AND ORGANIZATIONAL PROFILE

3.0 Introduction

This chapter deals with the methodology employed in conducting the study. This represents the strategy adopted in the collection of data to answers the research questions. The research focuses on the activities of mortgage institutions in the country, particularly in the Greater-Accra Region of Ghana. A Mixed Method design was adopted for purpose of triangulation to arrive at valid and reliable conclusions.The study uses both purposive and simple random sampling technique in the collection of primary data for the research to allow for representativeness, precision and generalization of findings. Data collected consist of both quantitative and qualitative information. It also consists of both primary and secondary data. Primary data was collected through interviews and questionnaires, involving structured and semi-structured interviews. Secondary data is made up of previous research by learned authors, publications, Statistical Reports etc.

3.1.0 Population

The population for this research consists of mortgage institution, estate developers in Greater Accra Region and mortgage applicants to these mortgage institutions.

3.1.1Target

The study targets five key mortgage institutions in the Greater Accra Region of Ghana as well as mortgage applicants to these institutions. These Mortgage institutions are Ghana Home Loans, HFC Bank, Stanbic Bank, Fidelity Bank and the Cal Ban

3.2 Sampling Procedures and Sample Size

Simple random sampling was used to select a sample size of 100 people who are mortgage applicants to the key mortgage institutions. Purposive sampling is also used to sample views from key personnel of Ghana Home Loans, HFC Bank and Fidelity Bank, Stanbic Bank and Cal Merchant Bank. Purposive sampling was also used to sample views from Ghana Real Estate Development Association. Simple random sampling technique was employed to collate views from mortgage applicants to these mortgage institutions.

3.3 Research Design

The research examines residential mortgage market in Ghana. It explores residential mortgage as a means of housing finance in Ghana and compares mortgage finance in Ghana to that of United States of America. A review of antecedent issues to the financial crisis in the USA that resulted from residential mortgage will be done to draw out some lessons to improve the mortgage industry in Ghana. The research designed is based on both qualitative and quantitative tools to determine the nature and challenges pertaining to the residential mortgage market in Ghana.

3.4.0 Sources of Data

The survey is based on both primary and secondary data. Questionnaires and interviews were used to collect primary data from sampled respondents. Data from secondary sources such as journals and financial statements were analyzed to draw conclusions for this study.

3.4.1 Primary Sources

To enable the researcher find answers posed by this study, primary data was sourced from officers of mortgage institutions, GREDA, and mortgage applicants. Customers who are either buyers or owners or applicants of residential houses were approached for data collection. The methods for collecting this data were both interviews and structured questionnaires.

3.4.2 Secondary Data

Unlike primary data secondary data, is the name given to data that are used for some purpose other than that for which they were originally collected. Some of these may include; previous research in the area, newspapers, journals, magazines, textbooks, internet (websites) and the like.
The research made use of data from some of the above sources for the study.

3.5 Administration of Research Instruments

The questionnaires were distributed to prospective applicants who approached the mortgage institutions for enquiries. This was made possible through the help of a mortgage officer of the institution. The interview guide was used by the researcher to interview an official of the mortgage institution and the Ghana Real Estate Development Association.

3.6 Data Analysis

Data collected from the survey were analyzed through the use of tallies, tables and charts. Some data were converted into percentages to enable the research reach some conclusions.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter presents and analyzes and discusses information gathered on the field relating to the stage of development of the mortgage market in Ghana, the environment necessary to promote the growth of the market, the penetration of mortgage market to housing and the challenges facing the residential Mortgage Market in Ghana. Data presented relates to both the supply and demand of mortgage products in Ghana. Primary data is collected from the field through personal interviews and questionnaires, and accurate secondary data collected from extensive published sources. The quantitative data is critically anayzed by the use of the statistical package for social sciences (SPSS) and Microsoft excel. A further use of tables, bar charts, line graphs is employed to give detailed graphical presentation.

4.1.0 Demographics of Mortgage Applicants

To identify the variables that relate to and affect the demand for mortgage products in Ghana, questionnaires were administered to 100 respondents who are customers to the five mortgage institutions and who had approached these institutions for various mortgage products out of which

85 gave their responses. The data gathered indicates 51 Public sector workers, 29 private sector workers and 5 self–employed applicants. The respondents comprised 60 males and 25 females with ages were between 21-60years. There were 55 married 23 unmarried and 4 7 divorced. All the respondents were literate 10 were graduates of SHS, 60 tertiary and 15 were post graduates. These figures are represented in the table below.

Table 4.0 Demographics of Mortgage Applicants

Variable	Value	Frequency	Percentage
Sex	Male -	60	29.4%
	Female-	25	70.6%
Age of Respondent	18-24	5	22%
	25-40	50	58.8%
	41-50	25	29.4%
	51-60	5	5.8%
Marital Status	Single-	23	27.05%
	Married-	55	64.7%
	Divorce-	7	8.2%
Education Level	SHS	10	11.8%
	Tertiary	60	29.4%
	Post graduate	15	17.6%

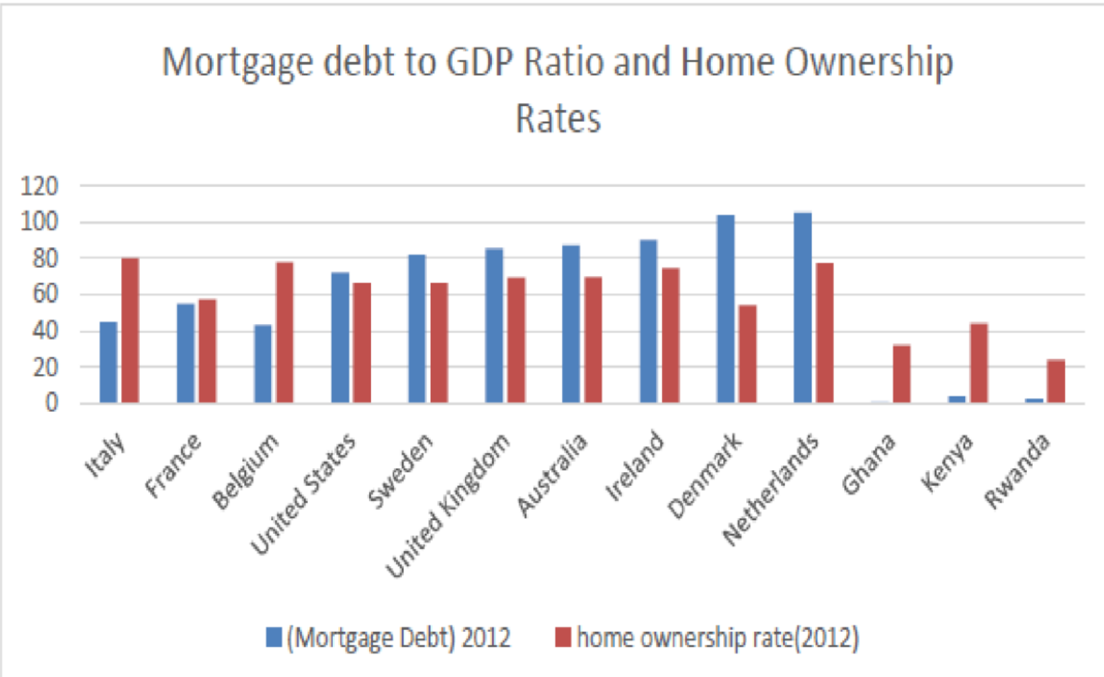
Sector of Employment	**Public Sector**	**51**	**60%**
	Private Sector	**29**	**34.1%**
	Self- employed	**5**	**5.8%**

Source Field Survey July 2015

4.2.0 The Stage of Development of Mortgage Market in Ghana

There are about twenty six commercial banks in the financial market in Ghana with barely five of them currently offering mortgage financing products. The leading non-bank financial institution in mortgage financing in Ghana is Ghana Home Loans. The total home loans book in Ghana is around US$ 180 million and the number of borrowers just under 6,000 (Adu, 2014)

The answers of the respondents indicate that the mortgage market has grown over the years but the industry is still at an infancy stage. This is indeed the case considering the contribution of mortgage debt to GDP in the country. The ratio of Mortgage Debt Outstanding (MDO) to Gross Domestic Product (GDP) for any economy is an important proxy for measuring mortgage market development (BOG, 2007). Ghana's mortgage market is still embryonic, with only a 0.5% mortgage debt to GDP ratio as of 2014 (CAHF, 2014). Figure 4.0 adopted from CAHF, 2014 gives an indication of the stage of development of Ghana's Mortgage market as compared to the mortgage markets of developed economies. The diagram shows that Ghana has insignificant mortgage debt to GDP and so its mortgage debt is unrepresented in the diagram.



Source: IUHF Country Factsheets (2013: 2014), IMF Global Stability Report (2014), CAHF (2013: 2014)

Figure 4.0

The diagram shows mortgaging as that the key driver of increased home ownership rates in developed economies because the countries with high mortgage to GDP ratios have corresponding high home ownership rates. The reverse is however the case in the developing countries, which shows discouraging mortgage debt to GDP ratios but plausible home ownership rates. Mortgage markets undoubtedly hold the potential of contributing to economic and social development. The mortgage market is a major contributor to development and GDP in many economies because, if the economy grows at a given rate, the housing sector has the capacity to grow at 1.4 times that rate and generate 3.2 million new jobs over a decade (World Bank, 2008). These assertions are grounded in the residential mortgage debt to G.D.P ratios in many developed economies including Netherlands(98%), Denmark(99%), Switzerland(100%), United Kingdom(85.6%), United States of America (72.4), Germany(47.6%), Australia(85%), Canada(62) (IUHF,2013:2014). Conversely, developing countries have their residential mortgage debt to G.D.P ratios as: Kenya (3.7%), Nigeria (<1%), Rwanda (2.6%) and Ghana (0.5%). (CAHF, 2013: 2014).

4.2.1 The Residential Mortgage Companies

Most financial institutions underwrite mortgages in one way or the other not necessarily focusing on residential mortgage as their core business. However, key mortgage institutions in the country include Ghana Home Loans (GHL) and Housing Finance Company (HFC) Fidelity Bank, Cal Bank, Stanbic Bank, Ghana Commercial Bank and Barclays Bank.

4.2.2 Ghana Home Loans (GHL)

Ghana Home Loans (GHL) is a non- banking financial institution operating under the Bak of Ghana supervision and license. GHL commenced its business in 2006, and has since assisted hundreds of

Ghanaians in acquiring their dream homes. It provides competitively priced longterm mortgage finance to facilitate home ownership. Its shareholders are Standard Bank (South Africa), FMO (Netherlands), GHL-US Investment Partners (USA), International Finance Corporation IFC (USA), Management and staff. It is currently working to venture into securitization to raise additional funds. It leads the new initiative of mortgage refinancing.

Residential Mortgage Products provided by Ghana Home Loans to its clients include First Time Buyer, Buy to Let, Home Completion, and Refinance. Data gathered from the field indicated that, GHL since its establishment has successfully advanced loans to about 1000 applicants.

4.2.3 HFC Bank Ltd

HFC Bank was created as a shell company within Merchant Bank (Ghana) in 1990. It was incorporated as a private limited liability company. However, it was converted to a public limited liability company on October 5, 1994 and was listed on the Ghana Stock Exchange on March 17, 1995. It is the major competitor to Ghana Home Loans. HFC Bank (Ghana) Limited (formerly Home Finance Company) was licensed as a mortgage financing institution to implement a Housing Finance Program in Ghana

4.2.4 Stanbic Bank

Stanbic Bank Ghana Limited provides commercial banking and related services. It offers transactional, savings, and investment accounts, as well as mortgage, installment credit, overdrafts, and long- term lending services to individuals. Stanbic Bank Ghana was founded in 1999 in Ghana as a subsidiary of The Standard Bank of South Africa Limited. The mortgage products offered by the company include, home purchase, developer construction, employer group mortgage, equity release and home improvement. An advantage of Stanbic Bank mortgage is that it provides for refinancing of the mortgage products. To qualify for Stanbic Bank Mortgage facility, the following are the conditions. Applicant must work for any Stanbic profiled organization, Earn a minimum net salary of GH¢S2,000 or USD1 500 a month, Be permanently employed, Be a high net worth individual considering buy-to-let options, Be over

21 years and under 60 years by the end of the loan term.

4.2.5 Cal Bank

Cal Bank was established in 19990. The CAL Mortgage products target the middle income earners and high net worth individuals. It can be accessed for home completion, home improvement and equity release. The Mortgage loan has the following features. The tenure of the loan is for five to fifteen years, the debt burden ratio is 45%, and the maximum amount to be given is 85% of the value of the property. Moreover, the mortgaged property must at least be at lintel level.

4.2.6 Residential Mortgage Products in Ghana

Information gathered from the research indicates the Mortgage products that are offered by the leading mortgage institution in Ghana and these include; First Time Buyer's Mortgage, Equity Release Mortgage, Home Improvement Mortgage, Buy to Let Mortgage, and Home Completion Mortgage.

First Time Buyer's Mortgage

This is for applicants looking to buy their very first home. These are typically individuals or young couples (joint applicants) looking to establish a home. Applicants will be required to contribute at least 20% of the property value towards the purchase; whiles the facility takes care of the remaining 80% property value.

Equity Release

This product is for applicants who own their homes outright but wish to borrow on a long term basis using their home as collateral to expand their business, undertake home improvements expansion, pay overseas school fees etc. No down payment is required for this type of mortgage. Furthermore, all fees and charges can be capitalized (added to the loan) to make it easier for the borrower.

Home Improvement

Maintenance and Renovation are very important in the life of every building if its value is to be maintained or to be improved. This however sometimes requires huge capital outlays which most house owners are unable to provide. The Home Improvement mortgage is advanced to home owners to help give their old properties face lifts so as to maintain or improve on their values and also to increase the economic and physical life span of the buildings.

Buy to Let

This facility allows people who have already purchased their first homes to buy a second one for investment.

Home Completion

Most households who depend on their incomes to build their houses mostly get stack due to inadequate funds and their resources are then locked up in the development. This facility allows such people access loans to complete these projects in order to release the benefits from their investments in the real property.

The key Mortgage institutions in Ghana and their share in the mortgage market are as shown in Table 4.1 below. The total portfolio of mortgage loans provided by mortgage institutions in Ghana is below US$180 million.

Table 4.1 Mortgage Institutions in Ghana and their Market Shares

Mortgage Institutions in Ghana	Portfolio (in million dollars)	Market share (%)
Ghana Home Loans	84	47
HFC Bank	47	27
Fidelity Bank	24	14
CAL Bank	6	3
Ghana Commercial Bank	4	2
Barclays Bank	12	7
Total	177	100

Source:Ghana Home Loans, 2013

Table 4.2 Terms of Mortgage Products by Key Mortgage Institutions

Item	Stanbic Bank	Fidelity Bank	Ecobank	HFC Bank	CAL Bank	Ghana Home Loans
Loan Amt. Max.	No Cap. Minimum property value of GHS 40,000	No Cap On Loan Amount. Loan to value (LTV) ratio is 90%	Maximum amount of US$ 350,000	No Cap. Subject to customer's credit profile. LTV is 80% of property Value, 20% down payment expected from customer.	No Cap	No Cap
Interest Rate	0-4% above base rate. Base rate is 17.5%	14%. Offers only US dollar loans	20.5% for Cedi	3-5% above base rate. Base rate is 24.75%	Base rate + 3%. Base Rate is 24%	US$ rate of 12%
Tenor	Up to 20 years	Up to 15 years	Up to 10 years	Up to 20years	5-15 years	Up to 20years
Debt Service Ratio (DSR)	35%	No consideration of DSR.	40% cap	40%	40%	No consideration of DSR
Documents required to access mortgage	Documents Perfected In The Name Of The Vendor, Valuation Report	Title Deed, Certificate Of Ownership, Inspection Report, Valuation Report	Valuation Report, Confirmation From Employer.	Power Of Attorney, Valuation Report, House Documents	Proof Of Income, Valuation Report, Confirmation Of Income From Employer, Personal Guarantee	Proof Of Income, Valuation Report, Confirmation Of Income From Employer, Personal Guarantee

Source: Field Survey 2015

4.2.7 Accessing Residential Mortgage Product in Ghana

This is usually determined by the criterion adopted by the lender in underwriting mortgages. In giving mortgages, mortgagees want to be convinced that loans will be repaid. Mortgagors' ability to repay within the Ghanaian Mortgage Market are examined against a set of criteria which Karley (2002) call the 5Cs - condition, character, capacity, capital and collateral.

Condition

This refers to the economic, regulatory and political circumstances within which mortgages are contracted. The status of these factors determines the level of risk which also affects the mortgage interest rate. Despite the fact that there have been significant progress in these factors, lenders have not responded adequately and mortgages still remain expensive and unaffordable. This is seen from the interest charged on mortgages provided by the key mortgage companies.

For GHL, the Dollar loan base rate starts from 13.5% p.a. and 30% in Ghana Cedis whiles that of HFC is 30% in Ghana cedis. Out of the 85 respondents (mortgage applicants), 30 respondents, representing 35.2% saw these rates as reasonable, the remaining 55 representing 64.7 saw the rates as too high.

Character

This refers to the borrower's response to past debt obligations. If there is proof that a borrower has defaulted on past debt obligations then it is likely he will not honor a present one and as such banks will not grant the loan. This assessment depends on the availability of data on the credit history of the applicant or if the applicant has had a long relationship with the bank. Character appraisal in Ghana is virtually impossible with no credit bureau institutions or database on borrowers. Lenders therefore prefer to lend to deposit account holders they have known reasonably well. As a check on the credit worthiness of borrowers, these institutions always as a requirement demand a bank statement covering a specified time period from the bankers of borrowers.

Capacity

This refers to the borrower's ability to service the loan. It is determined by the payment-toincome ratio. The maximum ratio for most of the mortgage institutions is at 40%.Stanbic Bank however has payment to income ratio of 35% while Ghana Home Loans is much flexible with regard to the maximum ratio.

Collateral

This represents the security for the loan and as such the lender is concerned about its ownership, value and salability. Mortgage Companies require that the property must be covered by approved plans, building permits and must have fully registered title documents in the applicant's name. Unfortunately, most buildings in Ghana lack these requirements. The data gathered from this study reveals that 42 respondents representing 49.4% out of 85 respondents did not possess complete valid documents indicating fully registered titles of their property for collateral for accessing the mortgage. According to a mortgage analyst, the property must also be situated in an economically viable area within 40 kilometers radius from the major town or city and must have basic infrastructure including access roads, water, electricity and drainage. However, going strictly by these requirements will mean that some applicants will not qualify for the loan. This is because; even some properties close to the city centers lack these amenities. Mortgage lenders are therefore comfortable financing houses purchased from estate developers with the credibility to provide the right titles and quality to their properties. However, due to very high expected profit margin from these developers, the costs of such properties are normally not within the reach of many prospective clients.

Capital

This refers to the asset of the borrower. The amount of loan that the lender offers to the mortgagor is usually a portion of the total value or cost of the property measured as loan-to-value (LTV) ratio. A LTV of 70-80% is usually provided by lenders depending on the total value and the type of mortgage product, and the mortgagor has to show ability to foot the remaining percentage of the loan. Lenders are not only interested in mortgagors showing ability but also how the money is generated, whether it is already pledged as security and it must also be deposited in a designated account. With the low savings culture and the fact that incomes are hardly sufficient to sustain families, the deposit requirement has always been a problem. The study reveals that out of the 85 respondent who were interviewed only 25 representing 29.4% were able to meet the required down payment on their home loans.

4.3.0 The Environment Necessary for the Growth of the Mortgage Market in Ghana The key mortgage institutions (Respondents) commented on institutions that and mechanisms that have to be put in place to ensure the growth of the mortgage market in Ghana. The areas include proper property documentation, establishment of Credit Bureaus, and establishment of Secondary Mortgage Market and changes to the legal framework governing mortgages. Their observations include the following:

4.3.1 Property Documentation

All the 12 respondents (Suppliers) indicated that there is the need for proper property documentation to enable vast majority of loan applicants to access the mortgage facility. This is indeed one of the obstacles to the growth of the mortgage market in Ghana. This is so because the mortgage bankers require valid land title documents to property as security before they give out these loans to applicants. However in Ghana, most land and house owners lack the state certified title documents and acquiring documents entails cumbersome and long delays that frustrate applicants. The state institutions such as the Lands Commission responsible for land registration, the local and planning authorities responsible for building permits and all other related state institutions must be strengthened to make the process of these documentations easy to Ghanaians in order to encourage more Ghanaians to formalize the property documents.

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4.3.2 Credit Bureau Institutions

All 12 Respondents also indicated the need for Credit Bureaus in the country. This is a system created to gather, manage and disseminate credit information on people to financial institutions on requests. The mortgage market in the western countries is vibrant because of the presence of credit Bureaus which give factual information of the credit worthiness of mortgage applicants. This institution would also facilitate the growth of secondary mortgage market as it would be able to access the value of mortgage backed securities issue by mortgage bankers and other financial institutions. The government must pass a bill to regulate and encourage the formation of such institutions in the country. This will ensure the availability of information on the credit worthiness of home loan applicants to mortgage institutions as well as value of mortgage- backed securities issued to investors.

4.3.3 Access to Long Term Credit

All 12 respondents also indicated the need for the establishment of a secondary mortgage market to facilitate the mortgage market. There is the need for a secondary mortgage market to solve liquidity problems of primary lenders, remove long-term credit deficiencies, support securitization, mortgage switching and ultimately support the development of a vibrant housing market. The secondary mortgage market is indeed the back-bone of the mortgage industry. This is so because the market allows for cheaper source of funds and thereby allowing Ghanaians to access a cheaper mortgage product, whiles addressing the liquidity challenges of banks.

4.3.4 Sustained Economic Stability

Moreover, all 12 the respondents indicated the need for sustained economic stability to promote the Industry. Specifically, respondents indicated the need for currency stability as well low inflations rates to propel the growth of the market. This is so because higher inflation would invariable result in higher interest rates on loans and thus making mortgage loans inaccessible to most Ghanaians. There is the need for government to concentrate on improving economic indicators such as the Cedi trading position against the major international trading currencies, inflation rates, consumer price index, and income levels, among others. With these variables improved and the economy stable, investment in the mortgage market would be improved

4.3.5 The United States' Example

Aside the areas mentioned by the respondents, Ghana can adopt the features of the US mortgage market to promote the growth of this sector in the country.

4.3.6 The United States Mortgage Market

The United State Mortgage market consists of financial institution, instruments and systems that propel the growth of the market. Federal Housing Administration (FHA) was set up to give mortgage finance to households on long term basis. This Agency also insures all kinds of mortgage loans. The Federal Home Loan Mortgage Corporation (Freddie Mac) was also created to increase the opportunities for home ownership and to solidify the nation's mortgage market. The growth of mortgage backed security issuance fostered the integration of mortgage market with the capital market and broadened the institutional base for mortgage funding. Technological advances in information processing have impacted positively on the mortgage market. Lenders can now know the credit history of borrowers in a matter of seconds and are now able to determine whether a loan applicant meets the lending standards by just feeding a borrower's information in a desktop terminal.

The central agencies also provide guarantees to investors by purchasing mortgage-backed securities. They purchase parcels of mortgage loans from lending institutions and either retain them on balance sheet or securitize them to sell to the secondary mortgage market.

4.3.7 Securitization

Securitization is an integral part in the US home loan markets. It involves the packaging together of groups of home loans to trade on the capital markets. The home loans procedure was however, unbundled. The separation of the home loan procedure empowers organizations to focus on areas with best comparative advantage. Securitization has certain advantages as it brings about proficient utilization of capital. Furthermore, it brings about higher liquidity. In a non-securitized framework, an establishment must have adequate capital for the lifetime of the credit, when it wishes to keep on holding it. Thirdly, it is considered better for risk management as organizations working in a securitized business sector have the capacity to always reassess the danger/reward relationship included in holding home loans and modify their investment profile. Securitization offers residential home loan organizations the opportunity to reduce risks associated with a particular geographic location, by offering products to different consumers across the globe.

4.3.8 Standardization

Another condition necessary for the development of a home loan business sector is institutionalization. The size of the government organizations empowers them to force homogeneity on mortgage products. Fannie Mae, for instance, has created institutionalized programming to help banks in underwriting procedures. The government organizations often require mortgage loans to have specific qualities before and by so doing are able to distribute uniform, generally accessible home loan rate benchmarks, with the view to encourage accessibility by borrowers. It is clear from the US example that Home loan market cannot flourish without the assistance of government in building institutions and systems that function to hold and standardize mortgage products. Such special institutions and systems by the central government are imperative if indeed Ghana wants to see the growth of the mortgage market in the country.

4.4.0 Penetration of Mortgage Market to Housing Development in Ghana

In Ghana, private real estate firms aggregate under the umbrella of the Ghana Real Estate

Developers Association (GREDA). Key GREDA members includes: Regimanuel Grey, Lakeside Estate Ltd, NTHC Properties, Trassaco Estates Development, Devtraco, Salem Investment, Flexcon and Civil Master Company. They have also not delivered sufficient quantities housing. The ordinary Ghanaian worker is unable to afford the housing provided by these estate developers. The cost of funding to the estate developer are equally high as interest rates on loans are exorbitant with exchange rate volatility affecting the price of building materials imported by the developers for these housing projects. Table 4.3 shows the sources of funding for real estate developers in Ghana. The findings indicate that only 4 respondents out of 22 use mortgage financing arrangements. This indicates the scope of use of mortgage finance in housing development in the country.

Table 4.3 Sources of Finance for Real Estate Developers

Source: Adopted from Bank of Ghana 2007

	Frequency	Per cent (%) of Respondents
Bank Loan (Domestic)	8	36.4
Bank Loan (Foreign)	2	9.1
Government Guarantee	1	4.5
Self Financing	16	72.7
Mortgage Financing	4	18.2
Client Deposit	4	18.2
Loans by Directors	1	4.5
Credit from Suppliers	1	4.5
NOTE: Percentages do not add to 100 due to multiple responses by estate developers		

4.4.1 GREDA interview on the State of Property Market in Ghana

Sammy Amegayibor, Secretary to the Executive Council of the Ghana Real Estate Developers Association (GREDA), discusses the current state of the property market.

What are the biggest challenges for the real estate market in Accra and Ghana in 2014?

“The two major issues are land and finance. There is some kind of finance currently in place but this is not long-term”.

What are the biggest opportunities in the local property sector?

“Unfortunately we have a large housing deficit currently, which is an opportunity for real estate businesses and developers. However, the current business climate in Ghana is a challenge for these companies.”

In 2013 growth in the Ghanaian economy decelerated to 4.4 percent, considerably lower than the growth of 7.9 percent achieved in 2012. How has this affected the local real estate market?

“We have received indications from our members that their sales have dropped. One of the problems is that even though there is mortgage financing for most buyers, it looks like there is a considerable difference between the prices offered by the developers and the mortgage affordability on the part of the applicant. It is seems as though the mortgage system is not favoring the applicants. There are high interest rates and most of the income levels do not meet mortgage requirements.”

Are the vast majority of Ghanaians living in Accra homeowners? What is the trend towards property ownership?

“About 13 percent or so of the population actually own houses and 60 percent can afford rental. Thirteen percent or so can never own or rent. The trend towards property ownership is reducing in this current economy”.

What more could be done to increase the supply of low cost and affordable housing?

"In my opinion public-private partnerships provide the best opportunities. The state has made it clear that they do not have funding, so these types of partnership seem like the best solution right now."

4.5.0 Key Challenges to Residential Mortgage Market in Ghana.

Some of the challenges listed by mortgage applicants and suppliers as confronting the mortgage market in Ghana include affordability (Low income levels, down payment requirements, dollarization, cost of housing and high interest rates) lack of information, perception of Ghanaians to long term loans, currency instability, and access to funding, security requirements and the regulatory framework on mortgages.

4.5.1 Mortgage Affordability

A key challenge to the development of the mortgage market in Ghana is mortgage affordability. The income levels of most Ghanaians fall below the minimum repayment requirement and thus most mortgage applicants are unable to afford the cheapest mortgage products. Table: 4.4 indicates the income ranges of prospective mortgage applicants. The income levels of prospective applicants shows that about 51 of them representing 60% have income levels below GH¢2500, which is the minimum amount required to access a home loan for residential mortgage in Ghana. The responses also indicate that the payment to income ratios of most prospective applicants is above 40%. This shows that the applicants may not qualify for the mortgage as the payment to income ratios of applicants are often required to be 40% or below.

Moreover, the 20% down payment requirement for mortgages is indeed a challenge for most applicants as 60 respondents representing 70.5% of respondents considered down payment, an obstacle to accessing mortgage facilities in Ghana, whiles 55 respondents representing 64%considered interest rates on mortgages as excessive. 50 of the respondents representing 58.8% also saw dollarization of mortgages as an impediment. Summary of concerns of mortgage applicants are indicated in Table 4.7 whiles the concerns of mortgage suppliers are shown in table 4.8.

Most semi-detached houses cost between $30,000 and $90,000 while detached houses cost between $50,000 and $110,000. obviously, these are prices over and above the reach of the ordinary Ghanaian salaried worker (BOG 2007).The average middle class household's net income is at GH¢1,500($429) thus majority cannot qualify for the cheapest mortgage loan in Ghana (CAHF, 2014). The effect of this is the out pricing of potential mortgagors from the housing finance market. Moreover, most mortgage loans since 2012 have been dollarized by mortgage institutions in Ghana. This dollarization is as a result of the volatility of the Ghana cedi, hence the need for mortgagees to hedge loans by indexing them against the dollar. This however, allows lenders to enjoy lower interest rates (12.5%-13.5% as of July 2015) as opposed to cedi loans that attract between 28%-32% interest rates (GHL, 2014).This can be contrasted with the United States mortgage market with stable a currency and interest rates hovering around 3.5% for 30year mortgages(Reuters,2015).

Table 4.4 Income levels of mortgage Applicant

Income range of applicants (GH¢)	Number of Respondents
500-1000	11
1100-2000	40
2100-3000	20
3100-4000	9
Above 4000	5

Source: Field Survey July 2015

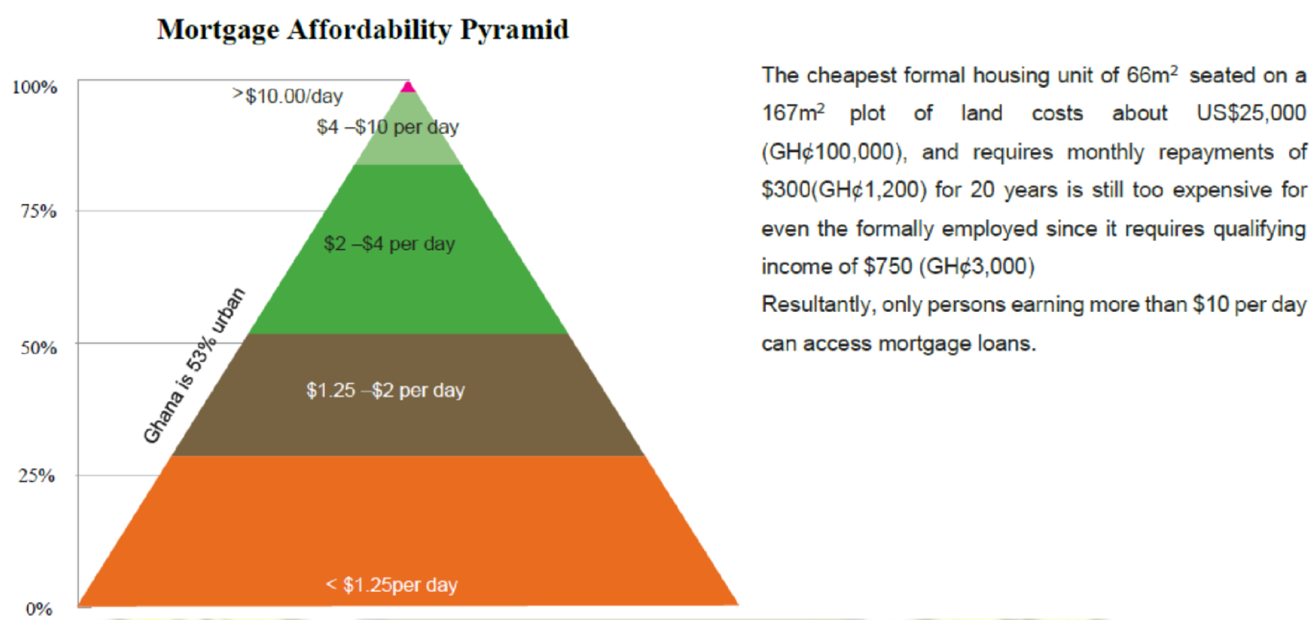
Table 4.5 Payment to Income ratio of Applicants

Payment-Income Ratio (%)	No. of Response	Percentage (%)
Up to 20	5	5.8%
21 – 30	9	10.6%
31 – 40	28	32.9%
Above 40	45	52.9%

Source: Field Survey July 2015

Figure 4.1 represents mortgage affordability for Ghanaians. The diagram indicates that aver 90% of Ghanaians earn income of less than $10 per day but the monthly repayment required by the smallest residential property is about $300 per month. This means that only persons earning income above $300 per month can access a residential mortgage product in Ghana, which invariable means that with the current economic conditions in the country, most home seeker cannot afford to purchase homes with mortgage loans. Table 4.6 compares affordability among the various mortgage institutions and notes that the variations in terms of cost among the institutions are not significant.

Figure 4.1



Source: Adapted from CAHF (2014)

Table 4.6

Mortgage Affordability per Institution

Institutions	Loan type	Loan amount and LTV[3]	Interest rate (per annum)	Monthly commitments (payment to income ratio[4] of 40%)	Qualifying salary.
Ghana Home Loans (GHL)	FRFP (US$)	0.75× $25,000 =$18,700	13.5%	$226 (GH¢790)	$565 (GH¢1,971)
	FRFP (GH¢)	0.75× GH¢87,500 = GH¢65,625	30%	GH¢1,645	GH¢4,113
	FRFP (US$) With 100% LTV	1× $25,000= $25,000	13.5%	$302 (GH¢1,056)	$755 (GH¢2643)
H.F.C bank	FRFP (US$)	0.8×$25,000 =$20,000	14%	$249 (GH¢871.5)	$623 or GH¢2,181
	FRFP (GH¢)	0.8× GH¢48,000 = GH¢70,000	30%	GH¢1,755	GH¢4,387
Fidelity Bank	FRFP (US$)	0.8×$30,000 =$24,000	12.5%	$227 (GH¢795)	$568 (GH¢1,986)
	FRFP (GH¢)	0.8× GH¢87,500 = GH¢70,000	29.5%	GH¢1,726	GH¢4,314
Cal Bank	Fixed rate	0.85× GH¢48000 = GH¢74,375	28%	GH¢1,742	GH¢4,355

Source: Field Survey July 2015

4.5.2 High Cost of Housing

All the 12 respondents interviewed named this as problem hindering mortgage provision in Ghana. This obviously shows that housing provision is characterized by high costs in Ghana. This eventually makes the down payment percentage requirement from lenders very high due to expensive end products, and which intend makes mortgages unaffordable. Again the payment-toincome of borrowers is also increased.

4.5.3 Lack of Information

Lenders require adequate information on the credit history of their clients in order to properly assess their risk. Information on default risk varies with the nature of the loan and the credit worthiness of individual borrowers. Default risk is the cause of greatest loss in mortgage lending. Lenders are usually concerned with the character of borrowers with the aim of minimizing default risk. They therefore do not transact business with prospective borrowers perceived to have high default capability. They resort to basic underwriting criteria such as reference and consent from employers, credit worthiness of borrowers, source and stability of borrowers' income and other necessary personal attributes. This system is characterized by credit rationing due to inadequate data on credit history of potential borrowers, absence of credit bureaus, large informal sector and information asymmetry.

4.5.4 Inflation Risk

Increase in inflation rate reduces an investor's rate of return if the cash flows from the investment are not pegged to the rate of inflation to offset the effect of inflation hence reducing the real value of the investment. An increase in inflation brings about an increase in nominal rates which must rise to compensate the lender for the erosion of value if the real value is to be maintained. In a zero inflationary environment the lenders return will be the real rate and the risk premium. However, in an inflationary environment, nominal interest rate must rise to capture the effect of inflation, if the lender is to earn the same real return. When inflation increases households must increase the initial share of income spent on mortgage repayments, in order to finance the same amount of real debt.

4.5.5 Perception of Ghanaians to Long Term Loans

The Ghanaian cultural and societal norms often create apprehensions about the use of loans or "debts" to construct one's residential property. Most households will therefore resort to the reliance on their meager income to build their homes. This affects the patronage of mortgage products hence the mortgage institutions spend a lot of time and funds organizing educational campaigns and fairs in order to change this phenomenon.

4.5.6 Legal and Regulatory Framework on Mortgages

All Respondents indicated that the current regulatory framework on mortgages is inadequate. The Mortgages decree states that a mortgage constitutes a charge over the property and shall not affect any change in the ownership except as provided under the provisions of the decree. This means that ownership of the mortgaged property remains with the mortgagor until the Courts decree otherwise. This actually hampered the process of mortgage recovery as banks had to resort to the law courts, with its long delays, in recovering properties. However, with the passage of the Home Mortgage Finance Act, 2008, Act 770 and the Borrower and Lenders Act 2008, Act 773 lenders are now empowered to recover the security for loans without reference to the law courts. This means that Mortgagees can now recover mortgaged properties in the event of default on the part of the Mortgagor by taking possession of the mortgaged property. This should give incentive to mortgage lenders to give out more loans. Nonetheless, there are no existing regulations to foster the growth of a secondary mortgage market in Ghana. All 12 respondents (Mortgage institutions) affirmed that the legislative framework for the mortgage market is inadequate to propel growth of the sector, although they admit some progress has been made in this regard.

4.5.7 Challenges faced by mortgage applicants and suppliers are summed up in tables 4.7 and 4.8

The responses indicate that the greatest challenge faced by prospective mortgage applicants is affordability as a result of low income-levels. Down payment requirements, interest rate on mortgage loans dollarization of repayments were some of the concerns of prospective applicants. The pressing challenges for the mortgage suppliers include inflation risk, absence of credit bureaus and access to long- term funding.

Table 4.7 Challenges faced by Mortgage Applicants

Challenges faced by mortgage applicants	Number of Applicants	Percentage
Down payment requirement	60	70.5%
Interest rate	55	64.7%
dollarization of loans	50	58.8%
Security	42	49.4%

Source: Field Survey July 2015

Table 4.8 Challenges faced by Mortgage Suppliers

Challenges faced by Mortgage suppliers	Respondents	Percentage
Inflation Risk	12	100%
Access to long-term funding	11	91%
Absence of credit Bureaus	12	100%
Inadequate regulatory framework	12	100%
High cost of Housing	10	83%
Perception of Ghanaians to long-term loans	8	66.6%

Source: Field survey July 2015

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter looks at the summary of findings, makes recommendations to improve the residential mortgage system in Ghana, and concludes the study.

5.1 Summary of Findings

The study revealed the following findings;

Majority of Ghanaians do not meet the 40% minimum payment-to-income ratio requirement and hence do not qualify for home loans. Only 42 out of the 85 respondents interviewed had no valid collateral. This refers to fully registered indenture/title documents and building permits and plans. This means that many Ghanaians do not have formal documents to their assets to enable them access home loans. Out of the 85 respondents, 70.5% had challenges with the 20% down payments required by their home loans providers. This means that residential mortgage is not affordable to majority of Ghanaians because they cannot meet this requirement. Some of the issues named by lenders and borrowers alike as hindering the residential mortgage market include lack of information, high inflation, perception of Ghanaians to long term debts, default risks, and inefficient land registration system among others. The Mortgage market in Ghana is at an infancy stage with its debt to GDP ratio at 0.5%. To promote the growth of the Mortgage Market there is the need for the development of a secondary Mortgage market to enhance liquidity and access to credit facilities.

Some of the mortgage products provided by lenders include Refinancing Loans, First Time Buyers, Equity Release, Home Completion and Buy to Let. A careful assessment of current mortgage types employed in Ghana reveals that mortgages are unaffordable to both low and middle class income earners. The high cost of mortgages is a product of unreasonably high interest rates, huge down payments, incidental fees, low income levels, mortgage underwriting constraints, among others.

5.2.0 Recommendations

The following recommendations are indispensable to the growth of mortgage market in Ghana.

5.2.1 Property Documentation

The government in collaboration with financial institutions must embark on mass education on the need to formalize all documents relating to property. The state institutions such as the Lands Commission responsible for land registration, the local and planning authorities responsible for building permits and all other related state institutions must be strengthened to make the process of these documentations easy to Ghanaians in order to encourage more Ghanaians to formalize the property documents.

5.2.2 Research into and use of Local Building Materials

The overdependence of the construction industry on the foreign market for building materials does not support the supply of affordable housing. There are alternative building materials that can be used to build affordable houses. However, due to the attitude and perception of Ghanaians towards the use of local materials for construction, demand for foreign building materials is always high which eventually increase their cost. The government should support research program and campaigns to improve on the quality and also to promote the use of local building materials for construction. Housing fairs can also be organized to educate the public on the advantages of the use of local building materials. This will eventually reduce the amount of money expected to be paid as percentage down payment for home loans, and hence increase accessibility of residential mortgage in Ghana.

5.2.3 Credit Bureau Institutions

Credit Bureau is a system created to gather, manage and disseminate credit information on people or organizations to financial institutions and investors on requests. The government must pass a bill to regulate and encourage the formation of such institutions in the country. This will ensure the availability of information on the credit worthiness of home loan applicants to mortgage institutions and also to determine the value of securities issued by these financial institutions.

5.2.4 Access to long term credit

There is the need for a secondary mortgage market to solve liquidity problems of primary lenders, remove long-term credit deficiencies, support securitization, mortgage switching and ultimately support the development of a vibrant housing market.

5.2.5 Sustained Economic Stability

There is the need for government to concentrate on improving economic indicators such as the Cedi trading position against the major international trading currencies, inflation rates, consumer price index, and income levels, among others. With these variables improved and the economy stable, investment in the mortgage market would be improved.

5.2.6 Flexible Mortgage Lending Conditions

In improving affordability also, there is the need to reduce the conditions associated with mortgage lending. Incidental costs should either be reduced or an option given for such amounts to be added to the loan and amortized together with it. Alternatively, home savings accounts can be opened for qualified prospective mortgagors to contribute towards the cost of down payments and incidental fees.

5.2.7 Development of Affordable Homes to Suit Local Needs

It has been noticed that housing units supplied by real estate firms are mostly tailored at high income earners. The development of detached and semidetached units in prime areas is unsuitable for supporting a proposed inexpensive housing finance industry because ultimately, the value of loans granted is dependent on property values. Development of flats and condominiums as seen in the examples of the United States of America and SSNIT in Ghana can increase the supply of affordable housing to support mortgaging by the middle class.

5.3 Conclusion

Ghana is confronted with a huge housing deficit challenge necessitated by financial constrains. The mortgage market has the potential to help resolve the housing challenge in Ghana but the current macro environment does not support the growth of this market. The main challenge to the growth of mortgage market in Ghana has been identified as low affordability levels. There is the urgent need for Government to intervene in the provision of housing by creating a congenial environment for the growth of the mortgage market in Ghana. This calls for a targeted approach to housing provision as well as curtailing the risks involved in granting mortgage loans, so as to boost the supply and demand of residential mortgage products in Ghana.

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APPENDICES

KEY MORTGAGE INSTITUTIONS IN GHANA

KNUST BUSINESS SCHOOL

DEPARMENT OF FINANCE

TOPIC: RESIDENTIAL MORTGAGE FINANCE; A SOLUTION TO HOUSING DEFICIT CHALLENGE IN GHANA

SECTION A: DEMOGRAPHICS

1. Your name ………….. Age ………………………….

2. Appointment……………………

SECTION B

To examine the stage of development of residential mortgage industry in Ghana

Please tick or write where appropriate.

1. For how long has your mortgage market been in operation?

a. 5- 10 [ ] b. 11-15 [ ] c. 16- 20 [ ] d. 20 -25 [ ] others specify [ ]

2. What kind of mortgage products does your organization offer applicants?

a. First Time Buyer's Mortgage [ ] b. Equity Release [ ] c. Home Improvement [ ]

d. Buy to Let [ ] e. Home Completion [ ] others specify…………………………..

3. What type of currencies does the company applies on mortgage loans?

Ghana new cedi [ ] US dollar [ ] Euro [ ] Pounds [ ] others specify ………

4. How would you assess the mortgage market in Ghana in terms of its development?

a. Infancy stage [ ] b. Growth stage [ ] d. Maturity stage [ ]

5. What is the demand potential of the mortgage market in Ghana?

a. Declining demand [ ] b. Stable demand [ ] c. Growing demand [ ]

6. What is the supply potential of the mortgage market in Ghana?

a. Growing supply [ ] b. Stable supply [ ] Declining supply [ ]

7. What is the minimum mortgage amount that one can apply for?

a. 100- 500gh [ ] b. 600- 1000gh [ ] c.1000-2000gh [ ] e. No limit [ ] d. others specify……………

9. What is the maximum amount?

a.10, 000-100,000gh [ ] b. 100,000 – 200, 0000gh [ ] c.200, 000- 300000 gh[ ] d. No limit e. others specify ……………..

10. What is the average number of mortgage applications you receives in a year?

a.10- 100[ ] b. 100- 200[ ] 200-300 [ ] 300-400[ ] above 1000[ ] others specify………

11. What is the average number of successfully processed mortgage out of this number?

a. 50-100 [ ] b.100- 200[ ] c. 200- 300[ ] d. above 500 [ ] e. above 1000[ ]

12. What is your opinion about the progress of the housing market of the economy?

a. slow pace of development [ ] b. Fast pace of development[ ] c. Average growth [ ] e. Not growing [ ]

13. How will you describe your default rate on your mortgage facilities?

a. 0-5% [ ] b. 5 – 10% [ ] c. 10- 15% [ ] d.15- 20% [ ] e. 20- 30%[ ] f. above 50% [ ]

14. What are your mortgage processing fees?

a. 0-5% [ ] b.5- 10% [ ] c. 10- 15% [ ] d. others specify ……………….

16. What are the requirements for a mortgage loan application?

a. Character [ ]b. Ability [ ]c. Means [ ]d. Purpose [ ] e. Amount [ ]

f. Repayment [ ] g. Insurance [ ] Others specify ………………………….

SECTION C

To ascertain the environment necessary to promote the growth of a mortgage market

1. What conditions are necessary for the full growth of the mortgage market in Ghana?
   a. Awareness creation [ ] b. Low inflation and interest rates [ ] c. Development of secondary mortgage market [ ] d. Efficient land title administration [ ] Others specify ………………………………..

2. What in your view has prevented the development of a secondary mortgage market in Ghana?
   a. Inadequate regulatory framework [ ] b. small primary market base [ ] c. Poor land title system[ ] d. High inflation and interest rates [ ]

3. What is the effect of the declining value of the Ghanaian cedi on mortgage repayments?
   a. increase repayment amount [ ] b. does not affect repayment amount[ ]

4. Are the interest rates on the mortgage loan fixed or variable?
   a. Fixed [ ] b. Variable [ ]

5. If interest rates are fixed on the mortgage loan how does this affect the profit margin on the mortgage when interest rates go up on the market?
   a. Does not affect profit margin [ ] b. Affects profit margin [ ]

6. What is your interest rate on the mortgage?

a. 5-10%[ ] b. 10- 15% [ ] c. 15-20%[ ] d. 20-25% [ ] e. 25-30% [ ] f. above 30% [ ]

SECTION D

To examine the penetration of the mortgage market in the housing sector of Ghana

1. What is the contribution of mortgage finance towards the housing sector development in Ghana?

   a. Significant [ ] b. Not significant [ ]

2. What is the estimated contribution of the mortgage market to the housing sector in Ghana? 0-10% [ ] 10- 20% [ ] 20-30% [ ] above 50% [ ] others specify……….

3. What is the average number of mortgage products that is actually offered to applicants within a year?

a. Below 100 [ ] b. 100- 200 [ ] c. 200-300 [ ] d. 300- 400[ ] Above 500 [ ]

Section E

To examine key challenges to residential mortgage providers in Ghana.

1. What are some of the challenges you face as a residential mortgage provider?

a. Access to funding [ ] b. Affordability [ ] c. Inadequate government regulations [ ] d. High rate of default [ ] Perceptions of Ghanaians to long- term loans [ ] Others specify

……………………

2. What are the sources of funds for your mortgage products?

a. Shareholders contributions [ ] b. Foreign development finance institutions (DFIs) [ ] Deposits by customers [ ] interbank borrowings [ ]

4. Are there challenges in accessing funding for the mortgage products? a. Yes [ ] b. No [ ]

5. What are some of these challenges?

a. High cost of borrowing [ ] b. Collateralization [ ] c. Inflation [ ]

6. Do you consider the existing legal and regulatory framework adequate enough to promote the mortgage market?

a. Yes [ ] b. No [ ]

RESEARCH QUESTIONNAIRE (PROSPECTIVE MORTGAGE APPLICANT)

KNUST Business School, Department of Finance

Dear Respondent,

Hello, I would be grateful if you can spend some few minutes answering these questions. Please be assured that this is purely an academic exercise and all responses will be considered with utmost confidentiality.

TOPIC: RESIDENTIAL MORTGAGE FINANCE; A SOLUTION TO THE HOUSING DEFICIT CHALLENGE IN GHANA.

SECTION A: DEMOGRAPHICS

1. Gender a. Male [ ] b. Female [ ]
2. Age of Respondent in years
   a. 18- 30yrs [ ] b. 31-40 [ ] c.40-50 [ ] d. over 50 [ ]
3. Highest level of Education…………………………………………………
4. What is your occupation? ....
5. What is your net income bracket in Ghana Cedis?
   a. 500-1000 [ ]b. 1100- 2000[ ] c. 2100- 3000[ ]d.3100- 4000[ ] e. above 400

SECTION B

Please tick, circle or write where appropriate.

1. Are you a mortgage applicant? a. yes [ ] b. No [ ]
2. For what purpose are you taking the mortgage?
   a. House Purchase [ ] b. House completion [ ] c. Business Purpose [ ] d. Other Purpose [ ]
3. How do you see the interest on the Mortgage facility?
   a. Expensive [ ] b. Normal [ ] c. Affordable [ ]

4. What percentage of the value of the house would be financed by the mortgage?

    a. 60 [ ] b. 80% [ ] c. 100% [ ]

5. Do you own a house already? a. Yes [ ] b. No [ ]

6. If yes, how did you own it?

    a. Purchased [ ] b. Built [ ]

7. How was it financed?

    a. Mortgage [ ] b. Personal Savings c Remittances from abroad [ ] others Specify [ ] 8. Did you face any challenges processing your mortgage facility? a. Yes [ ] b. No [ ]

9. If yes, kindly name some of the challenges faced…………………………………….

10. What is your repayment period for the mortgage facility? a. 10- 15yrs[ ] b. 15- 20yrs[ ] 20-25yrs [ ] Above 30yrs [ ]

11. About what Percentage of your monthly income do you pay out as mortgage facility?

    a. 20 or below [ ] b. between 20 – 30% [ ] c. between 31 – 40% [ ] d. Above 40%

12. What issues do you consider as hindering the demand for residential Mortgage in Ghana? a. High interest rate [ ] b. Difficulty in accessing mortgage facility [ ] c. Low income levels [ ] d. Foreign currency denomination of loans [ ] e. High cost of housing [ ] f. Others specify ……………………