

MAKING THE CASE FOR SPECIALIZED, FOCUSED MORTGAGE LENDERS

OVERVIEW

We advocate the creation of specialized and focused mortgage banks to operate in primary markets of emerging market economies. Here are several reasons for this viewpoint:

A. NOBODY ELSE IS DOING IT

1. Commercial banks are typically short-term lenders, relying on short-term retail deposits and short-term interbank lending. As currently constituted, they do not think of the longer-term home loan demand as a natural market.
2. Commercial banks offer many banking products. Especially in developing markets, they tend to fulfill many needs and cannot provide the focus and expertise modern mortgage lending requires.
3. Banks get more turnover from other kinds of consumer lending, and they typically consider consumer lending to be less risky (with better returns) compared with mortgage lending.
4. SACCO lenders, who have some focus on the consumer sector, simply do not have the expertise and financial resources to address significant demand.

Thus, one cannot rely on the existing local banking community to supply the quantum of capital needed, at an affordable price, with top-notch customer service.

B. THERE IS NO EXPERTISE, NO URGENCY, LITTLE COMPETITION

Therefore, our proposal of a specialized and focused mortgage lender in the primary mortgage market can change the existing paradigm and provide the financing capital needed to bring home sales to a sufficiently high level to move the needle of housing deficits. A mortgage focused and specialized lender will employ modern and cutting-edge FinTech solutions to enable itself to be the most efficient and lowest-cost producer of mortgage loans in its market (read: digital and paperless). These solutions will carefully evaluate and screen applicants to minimize credit risk (lower defaults and losses to very low levels). The rationale of this mortgage bank will not be to hold a mortgage portfolio but originate and sell to investors from 90 to 95 percent of loan originations. In doing so, these mortgage banks create a strong bridge to the local capital markets, matching long-term loans with the investors who have long-term investment horizons such as pension funds and life insurance companies.

SUSTAINABILITY AND IMPACT

1. They can be highly successfully financially because they can be **disruptive** to the existing mortgage lending business model and the existing mortgage

lenders who are typically multi-product commercial banks. Focused mortgage lenders will introduce a level of competition not seen before by lowering the offering interest rate and by being aggressive in marketing, thus achieving a significant market share in mortgage originations.

2. In our vision, specialized lenders become conduits to the capital markets by pooling the great bulk of their loan originations and packaging them into mortgage backed securities for sale in the local capital market.
3. Such lenders stand to be highly developmental and transformative to the national financial sector because they can transform and modernize the mortgage and banking sector, spur a level of competition never before seen, making housing finance significantly more prevalent, accessible, and affordable.
4. Affordability. Our previous documents have made the case for the holistic solution. This solution says that to get affordable housing in quantities that will effectively address a nation's housing deficit, the financial sector needs to bring affordable housing finance with matching amounts of funding. This proposal will do that in an effective, sustainable, and even disruptive way. Affordability in housing finance is half the battle in providing sustainable affordable housing solutions. Our initiative will lengthen tenors and lower interest rates naturally through open market forces of supply, demand, and free competition.

In a modern setting, competition in mortgage lending will take place based solely on customer service and pricing, creating a new competitive paradigm and a new drive for volume (without compromising credit quality). Banking firms will eventually rise to the higher-level competition and transform themselves with a new banking line of business, and one with excellent profitability characteristics and low credit risk. The capital markets will have a new asset in which to invest, one which will offer securities that provide investment horizon-matching to their liabilities. These mortgage-backed securities will be rated and listed and will develop good liquidity characteristics over time.

Why is this good for the real sector and overall economy? Affordable housing finance will stimulate affordable housing production, and the vastly expanded economic activity that comes with this. New jobs will be created and created on a sustainable basis. Because of expanded employment opportunities, new households will be able to qualify for mortgage loans and new housing. The housing sector has traditionally been the single biggest engine for growth in any Western-style economy and has led many economies out of just about every recession in the years since World War II.