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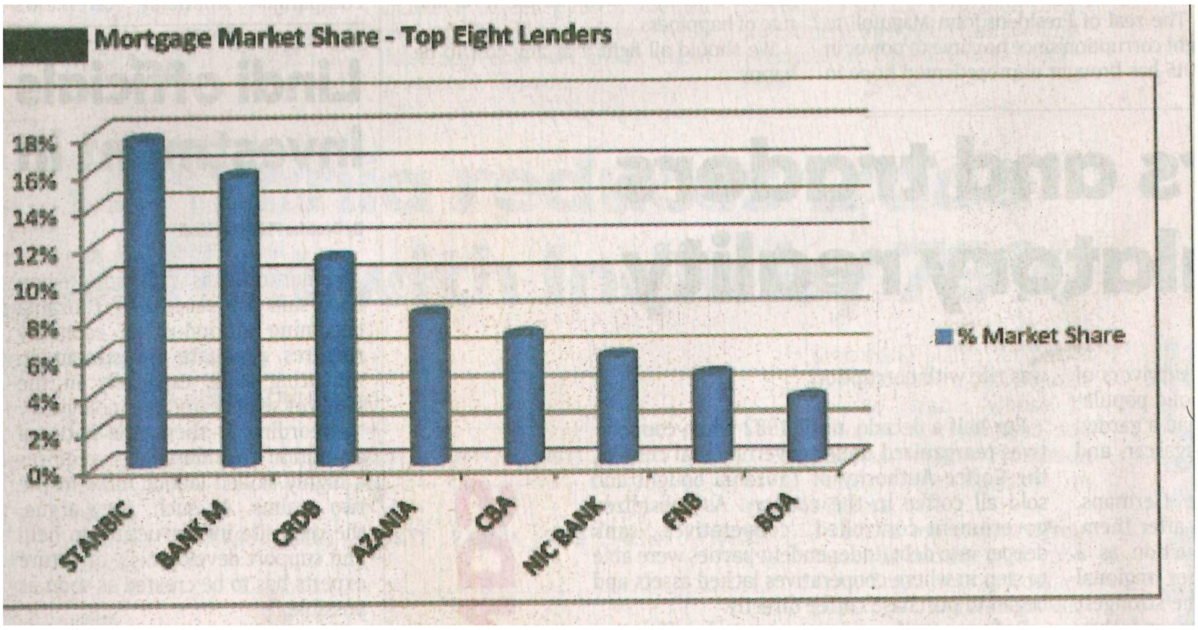
Three more banks join list of mortgage lenders

Despite 2017 being another bad growth year for local mortgage finance, three new lenders joined the business of financing private ownership of residential and commercial properties in the country.



The new kids on the mortgage lending block are Letshego Bank (T) Limited, Yetu Microfinance Bank Plc and Mufindi Community Bank Ltd.

According to the latest sectoral market report, 31 banking institutions were offering the service at the end of last year compared to 28 in 2016 and only three in 2009. In 2016, market debutants were Diamond Trust Bank (T) Ltd and Standard Chartered Bank.

Bank of Tanzania (BoT) and Tanzania Mortgage Refinance Company Limited (TMRC) expect the number of market players to increase further in coming years as more banks continue to launch mortgage loan products. The consequent competition is expected to not only ease access to mortgages but also help to reduce the current high interest rates, which is one of the major constraints on market growth.

"As at December 31, 2017, the mortgage market was dominated by five top lenders, who amongst themselves command about 60 per cent of the mortgage market," BoT and TMRC note in the Tanzania Mortgage Market Update – 31 December 2017.

"Stanbic Bank was market leader commanding 18 per cent of the mortgage market share, followed by Bank M (16 per cent), CRDB Bank (11 per cent), Azania Bank (eight per cent) and Commercial Bank of Africa (seven per cent)," it adds.

According to the report, "more positive developments are expected in the market with more banks now launching their mortgage loan products as competition in the traditional banking products continues to intensify."

In 2015, the local mortgage market had expanded overwhelmingly by 45 per cent. Last year, the growth rate was a mere six per cent. Mortgage business was almost three times lower in 2016 compared to the performance in the previous year but the outturn was not as bad as last year's since market expansion was still above the overall GDP growth of the national economy.

"The mortgage market in Tanzania registered a growth of six per cent for the year 2017, compared to a growth rate of 16 per cent in 2016," reads the report.

The national economy grew around 7.1 per cent last year, beating the government's own revised forecast, Prime Minister Kassim Majaliwa told Parliament in Dodoma early last month. Last November, the government trimmed its gross domestic product (GDP) to 7.0 per cent from 7.1 percent. That forecast had also been revised from 7.4 per cent.

The authorities forecast national output to again expand by 7.1 per cent but independent forecasts put GDP growth at less than seven per cent due to several factors, including credit squeeze in the economy. In the April Monthly Economic Review (MER) the central bank says that annual growth of credit to the private sector remained positive at 1.1 per cent in March 2018, albeit lower than 3.3 per cent and 1.4 per cent in March 2017 and February 2018 respectively.

"The strongest expansions were recorded in the mining and quarrying, manufacturing and construction sectors. A slow-down was however experienced in the financial intermediation sector as the liquidity condition in the banking system remained relatively tight. The tight liquidity condition was reflected in the sustained slow-down in growth of private sector credit which stood at 3.4 per cent during the year ending April 20174," reads the joint BoT-TMRC report.

"Additionally the quality of the banking sector assets deteriorated as reflected in the rising trends on non-performing loans. As at end of April 2017 the ratio of non-performing loans to gross loans stood at 10.3 per cent from 8.2 per cent recorded at the end of April 2016.5," it adds.

In an attempt to boost private sector credit growth and ease the tight liquidity, the Bank of Tanzania reduced the discount lending rate from 16 per cent to 12 per cent in March 2017, and followed it with another reduction to nine per cent in August 2017.

The report has it that outstanding mortgage debt as at December 31, 2017, stood at 344.84bn/- equivalent to US$153.87 million compared to 324.08bn/- as at December 31, 2016. Average mortgage debt size was 82.62m/-, which is equivalent to around

US$36,863.52 compared to 93.6m/ in 2016.

The ratio of outstanding mortgage debt to gross domestic product (GDP) stood at 0.33 per cent, 0.01 percentage point lower the 2016 ratio. Typical interest rates offered by mortgage lenders during the year ranged between 16 -19 per cent.

"Demand for housing and housing loans remains extremely high but is constrained by inadequate supply of affordable housing and high interest rates. Most lenders offer loans for home purchase and equity release while a few offer loans for self-construction which for the most part continue to be expensive beyond the reach of the average Tanzanian," says the report.

"While improved from the levels of 22 - 24 per cent in 2010 to 15 – 19 per cent offered today, market interest rates are still relatively high hence negatively affecting affordability. Additionally while some improvements have been noted, bureaucratic processes around issuance of titles (especially unit titles) continue to pose a challenge by affecting borrowers' eligibility to access mortgage loans," it adds.

The Tanzanian housing demand is estimated at 200,000 houses annually and the country has a total housing shortage of three million houses.