Tanzania Mortgage Refinance Company Limited (TMRC)

Ownership through financial intermediation.

TMRC

TANZANIA MORTGAGE REFINANCE COMPANY LTD

Tanzania Mortgage Refinance Company (TMRC) is a financial institution owned by banks with the sole purpose of supporting the banks to do mortgage lending by refinancing banks' mortgage portfolios.

Tanzania Mortgage Refinance Company Limited (TMRC)

Ownership

Tanzania Mortgage Refinance Company (TMRC) is a financial institution owned by banks with the sole purpose of supporting banks to do mortgage lending by refinancing banks' mortgage portfolios.

Currently, TMRC has eleven shareholders / member banks namely CRDB (17.14%), NMB (12.86%), EXIM Bank (8.57%), Azania Bank (14.29%), TIB Development Bank (10.71%), BancABC (7.14%), DCB Commercial Bank (7.86%), NBC (7.14%), BOA (7.14%), PBZ (3.57%) and NIC Bank (3.57%). Each of the above banks has subscribed to the issued share capital of the company with the minimum of TZS 500 million.

As the balance sheet of TMRC grows, shareholders will be expected to increase their capital in the company. There are no restrictions on other banks or other eligible institutions to participate in the equity of TMRC. The company is an 'open club' with no restrictions on entry for eligible investors.

Vision

To become the preferred secondary market intermediate for mortgage financing in Tanzania.

Mission

To expand home ownership in Tanzania by providing long term financing to primary mortgage lenders.

Motto/ Slogan

"Home ownership through financial intermediation"

Business Strategy/Model

TMRC's business strategy would involve the following phases:

Phase 1 – Initial years of operations, TMRC will refinance the loans of banks using the World Bank

Loan and shareholders' equity. The World Bank loan of USD 30 millions will be advanced to member banks through TMRC whenever required by Bank of Tanzania in Tanzania Shillings equivalent.

Phase II – From the later years onwards, after exhausiting the World Bank loan, TMRC will be funding its operations from a combination of both the remaining shareholders' equity and by issuing corporate bonds in the capital market. The bonds issued by TMRC will be plain vanilla bonds with semi-annual interest payments and bullet repayment.

Purpose and Benefits

TMRC serves as a secure source of long-term funding at attractive rates while ensuring sound lending habits among banks. This will help in reducing any maturity mismatch risk for banks and increase available loan terms. This in turn helps improve the affordability of mortgages and extends the range of qualifying borrowers, resulting in the expansion of the primary mortgage market and thus home ownership in the country.

In times of credit crunch, TMRC may help banks to cover any unexpected short-term deposit outflow (or other temporary losses of funds), thereby avoiding potentially costly short-term borrowing or asset liquidation.

Additionally, TMRC acts as an efficient way of connecting long-term investors with the institutions generating long-term assets in Tanzania, thus helping develop a debt market and a longer term yield curve. TMRC's existence may also lead to the establishment of specialized housing finance companies in the private sector. This has been evidenced in Egypt where at least four such companies got established once the mortgage liquidity company was established there in 2006.

TMRC facilitates increased competition in the mortgage market by creating equitable longer term funding source to its member banks.

Overall the key benefits of a Mortgage Liquidity Facility can be summarized as:

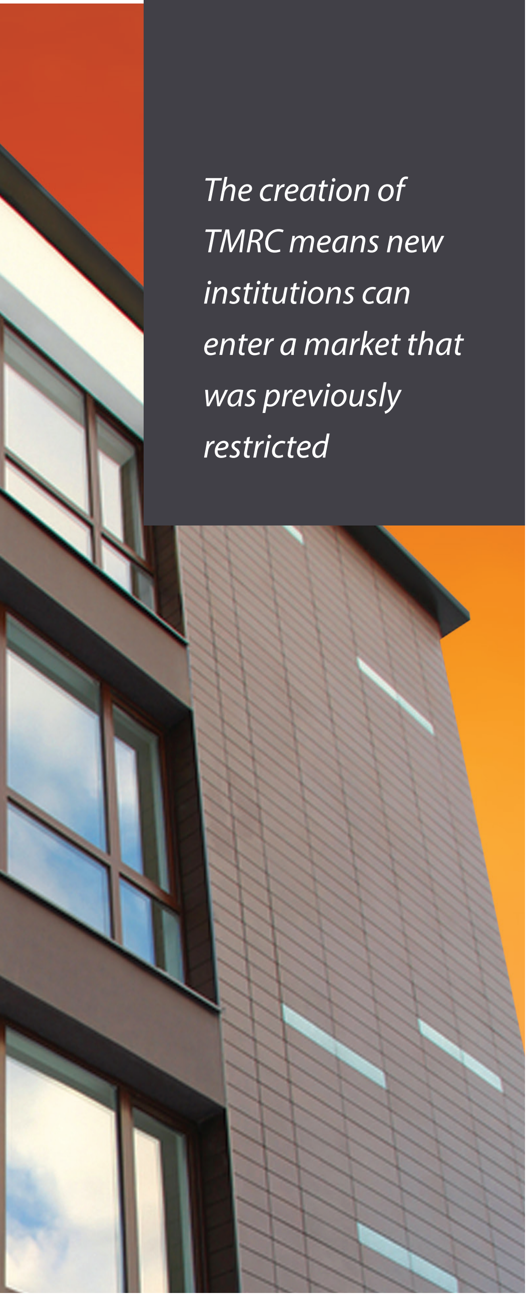
- The provision of secure long term funding at attractive rates. Lowering the cost of funds, which can lead to a lowering of mortgage rates, thereby improving affordability and extending the range of potential borrowers.
- The availability of long term fixed rates can help provide a degree of certainty, which can help the markets develop with confidence.
- Allows for greater competition in the mortgage market. The introduction of TMRC means new institutions to enter a market which was previously restricted to those with either a good credit rating or to those who had invested in a branch network and had significant deposit collection capabilities. TMRC will therefore enable a more diversified set of lenders to develop than just like large commercial banks, and can be a driving force for competition on the primary market, another factor promoting efficiency and affordability.
- Typically TMRC customers will be a deposit taker, often carrying a large supply of short term liabilities. Whether it is for regulatory reasons, economic instability, inflationary environment or general risk averseness, the short term liabilities are not always easily converted into longer term assets. TMRC provides a back up and allows for better management of the balance sheet. The short term deposits can therefore be used for long term lending, safe in the knowledge that TMRC will be there as a lender of last resort.
- By acting as a central refinancing platform, TMRC is able to act as a force for standardization in the market, pushing Member banks to adhere to best practice. TMRC will be able to set a criteria for the types of loans it will refinance, including standardized documentation, processes, risk characteristics, etc. Standardizing market practices allows for greater transparency, allows the

creation of market information systems, which in turn can lead to better risk management better market and consumer regulations and an overall lowering of the risks associated with mortgage lending.

- Acts as an intermediate step on the path to a full secondary mortgage market.

Whether it is the lack of adequate legislation, the absence of credit bureaus or the absence of rating agencies, many countries are not able to directly make the leap from funding mortgages through short term deposits to refinancing them on secondary mortgage markets using covered bonds or securitization.

- Act to deepen the financial market more generally by providing a long term investment to institutions with long term liabilities. Institutions such as pension funds, social security funds or insurance companies which have long dated liabilities are not always able to match that adequately solely using public debt issuance. So often they engage directly in the mortgage market or real estate markets (both commercial and residential) often with poor results. TMRC will act as an efficient way of connecting long term investors with the institutions generating long term assets.
- TMRC is a tool for delivering policy objectives such as the promotion of affordable housing or the promotion of local currency lending.



The creation of TMRC means new institutions can enter a market that was previously restricted

Charter

TMRC is a licensed non-deposit taking institution, authorized by the Bank of Tanzania (BoT) for the purpose of conducting its business, and by the Capital Markets & Securities Authority (CMSA) for the purpose of bond issuance. The Charter of TMRC reflects its unique role in being a single purpose vehicle. It restricts the Company from undertaking any other activities (such as taking deposits, commercial loan refinancing or lending directly) apart from the ones for which the Company is established. The restrictive charter is to ensure that the Company focuses on supporting the growth of the mortgage market and the bond market by limiting its activities to the refinancing of mortgage loans and the issuance of bonds in support of those activities.

Regulations:

TMRC is a financial institution. As a non-deposit taking institution, it is regulated by Bank of Tanzania under the Banking & Financial Institutions Act 2006, with some additional regulatory privileges. TMRC is licensed as a non deposit taking financial institution with clear limitations on its scope of business, limiting it to its core activity of refinancing mortgages. Additionally, as TMRC is intending to seek funding by issuing bonds, it will also have to be licensed and regulated by the CMSA. Transparent and effective regulation of TMRC are critical to build confidence in the bonds it will issue. A strong Regulator is important in instilling the confidence in TMRC that is required by potential investors. The role of the Regulator, amongst others, include powers to review financial information, monitor capital adequacy, review risk management procedures, and assess the quality of management. TMRC must be seen as an entity that addresses a gap in the mortgage and bond markets or corrects a 'market failure', rather than as a Government tool to exert undue influence on banks' decisions as this may distort TMRC's mandate.

Governance:

TMRC will have a board of 5 to 10 members who will principally be the Chief Executive Officers of the participating banks. The Board is responsible for the formulation of policies and strategies of the Company.

The TMRC Board is supported by Board Committees which are appointed and delegated with authority to decide on certain issues and to recommend the more important ones to the Board for approval.

a. Board Audit & Risk Committee – Reviews the audit of the Company's operations as well as the effectiveness of the financial and internal controls. The Internal Auditor and External Auditors will report directly to the Board Audit Committee.

The commitee responsibility is also to ensure there is proper oversight of risks of the Company. Board of Directors sets the risk appetite and tolerance level that is consistent with the Company's overall business objectives and risk principles. The BARC assists the Board of Directors by ensuring that there is effective oversight and development of strategies, policies and procedures to manage risks.

Board of Directors

Mr. Charles G. Singili (CEO, Azania Bank) – Chairman |, Dr. Charles S. Kimei (CEO, CRDB Bank) - Member |Mr. Peter M. Noni (CEO, TIB Development Bank) – Member | Mr. Mark Wiessing (CEO, NMB) – Member | Mr. David Lusala (Head Risk & Compliance-EXIM Bank) – Member | Mr. Bornface Nyoni (MD, BancABC) – Member |Mr. Edmund Mkwawa| Ms. Mizinga Melu (MD, NBC)| Mr. Ammish Owosu-Amoah (CEO, BOA) – Member | Mr. Oscar Mgaya (CEO, TMRC) - Member | Ms. Martha J.J. Maeda (Legal Counsel, TIB) – Company Secretary

Management Team

Mr. Oscar Mgaya, Chief Executive Officer

Oscar Mgaya was appointed Chief Executive Officer of Tanzania Mortgage Refinance Company (TMRC) on April 2013. He joined Tanzania TMRC in January 2011 as Chief Operating Officer. Oscar has over 19 years of commercial real estate and financial services experience. Prior to joining TMRC, Oscar was Director of Real Estate for Limited Brands in Ohio (U.S.A.). Oscar previously worked for JP Morgan Chase and General Electric Company. Oscar received both his Bachelor of Arts degree in Finance/Management, as well as his Masters of Arts degree in Management at Walsh University. He is also a Certified Leasing Specialist (CLS).

Mr. Oswald Urassa, Chief Finance Officer

Oswald Urassa joined TMRC in January 2011 from NMB where he headed the Treasury department for three years. He has over 20 years experience in financial accounting, capital markets, research and banking. Oswald worked with the Institute of Finance Management (IFM) as Senior Lecturer and as Head of Finance and Operations at the Dar es Salaam Stock Exchange (DSE). Mr. Urassa holds a Bachelor of Commerce degree majoring in Accountancy from the University of Dar es Salaam

and Masters in Business Administration (MBA) from University of Birmingham, UK. He is also Fellow Certified Public Accountant (FCPA) registered by the National Board of Accountants and Auditors of Tanzania (NBAA) as well as Certified Commonwealth Corporate Governance Trainer.

Mr. Shabani Mande, Head Operations & Information Technology

Shabani Mande Joined Tanzania Mortgage Refinance Company (TMRC) in July 2011 as Head, Information Technology. Shabani has accumulated over 14 years of management experiences in Information and Communication Technology (ICT). He has joined TMRC from Tanzania Postal bank where he was Director, Information and Communication Technology. He also worked with Barclays Bank Tanzania, during its second coming in year 2000, Tanzania Telecommunication Company (TTCL) and Dar es Salaam Water and Sewerage Corporation (DAWASCO) as Information Technology Manager.

Shabani has a Bachelor of Science degree in Electronic Science & Communication from the University of Dar es Salaam and is a Practitioner Certified Microsoft Systems Engineer.

Mrs. Anna Maria Shija, Internal Auditor Cum Risk Manager

Anna-Maria Shija joined TMRC in March 2013 from NBC where she worked for four years, heading the Wholesale Credit Risk and Compliance and Risk and Control Units. She has 7 years experience in Auditing and Credit Risk Management. Anna-Maria worked with Deloitte and Touche' as Audit Senior and NBC as Head of Wholesale Credit Risk and Compliance and Risk and Control Units. Ms. Shija holds a Bachelor of Commerce degree majoring in Accountancy from the University of Dar es Salaam.

Our lending to banks helps reduce the maturity-mismatch risk to banks and increases available loan terms

She is also a Certified Public Accountant (CPA) registered by the National Board of Accountants and Auditors of Tanzania (NBAA).

Refinancing cycle

Initial step is for a borrower to take out a loan from a lender; in return the borrower will provide regular repayments to repay the loan principal plus interest. The borrower also provides collateral in the form of a mortgage over the property to be purchased, constructed, refinanced and/or renovated.

Second step is for lender to get it refinanced with TMRC. TMRC will refinance the mortgage loans of banks with recourse to the banks.

The third step is for TMRC to raise its own funding by going to the capital markets and issuing bonds. It will issue very standard corporate bonds which do not involve any pass through of the credit risk attached to the mortgages. TMRC acts as a simple intermediary between mortgage lenders and the capital markets. By using its size and credit worthiness, TMRC will be able to raise funds at a cheaper rate than any bank would be able to do if acting alone. This is attributable to the strong shareholders, strong capital base, excellent quality of assets in its books and the fact that TMRC is regulated by BoT. This is one of the key benefits of TMRC especially for small and medium size banks who would not be able to access capital markets on terms which would make economic sense.

Summary of Mode of Operations of TMRC

(a) Master Refinance and Servicing Agreement:

The bank executes a Master Refinance and Servicing Agreement with TMRC before it may avail refinance loans from TMRC. The Master Refinance and Servicing Agreement sets out the general terms and conditions governing the pledge of mortgage loans to TMRC and incorporates a declaration by the bank that it holds the mortgage loans pledged to TMRC, the mortgage instruments and all monies received but not paid to TMRC in trust for TMRC. The charges over the property used to secure the mortgage loans continue to be registered in the name of the bank.

(b) Refinance Contract:

Members requesting funding will be able to do so by providing written instructions to TMRC.

The creation of TMRC means new institutions can enter a market that was previously restricted

TMRC provides members with confirmations of advances, reflecting the terms of the associated advance and commitments. All information provided to TMRC may be reviewed by TMRC when considering each request for an advance. Members should be aware of the representations and warranties in their borrowing agreements regarding the accuracy of information submitted to TMRC, and the possible contractual consequences of the breach of such representations and warranties.

TMRC's obligation to release funds on advance commitments is subject to the continued eligibility of the member for advances as determined by TMRC under applicable law. Advance proceeds will be credited to the member's requested bank account. For each refinance of a group of loans by TMRC, the bank executes a Refinance Contract by which the bank pledges the mortgage loans to TMRC. By virtue of such agreement the bank conveys, assigns and transfers the mortgage loans to TMRC.

(c) Refinance Value:

TMRC refinances the mortgage loans at book balance of the mortgage loan after deduction of (a) 25% and (b) any unearned interest (if any).

(d) TMRC Rate:

Products and services are priced in accordance with applicable regulations, taking into account the cost of raising funds in the capital markets. TMRC prices advances at or above the marginal cost of raising matching maturity funds in the marketplace, including the administrative and operating costs associated with making advances. TMRC prices its credit products consistently to all members applying for advances. However, TMRC may price advances on a differential basis,

Tanzania Mortgage Refinance Company (TMRC) is a financial institution owned by the banks with sole purpose of supporting banks to do mortgage lending by refinancing banks' mortgage portfolios.

based on tenor, volume, or other reasonable criteria applied consistently to all members.

(e) Review Date:

The review date represents the last date of the refinance period. On this date the bank has the option to roll-over the loans at the then prevailing TMRC rate or to settle the loans.

(f) Right of First Refusal:

As the owner of the mortgage loans TMRC has the right to sell at any time these loans either to the bank for which it had refinanced these loans or to a third party. Provided that prior to any sale to a third party, TMRC will first offer the mortgage loans for sale to the bank for which it had refinanced the loans.

(g) Compulsory Replacement:

Upon the loan becoming defective and/or in default the bank is required to replace the defective loan with qualified collateral.

(h) Payment of TMRC Installment:

For mortgage loans refinanced by TMRC, the bank is required to collect the monthly mortgage installments from the borrowers and remit to TMRC, TMRC's installment based on the contracted TMRC rate. Irrespective of whether the borrower pays the monthly mortgage installments, the bank is required to remit to TMRC the required payment based on the schedule of payments agreed between TMRC and the bank at the point of refinancing the loans. Payments to TMRC can be on a monthly/quarterly or semi-annual basis (depending on negotiations of banks with TMRC).

(i) Accounting Records:

The bank shall establish and maintain accounting records in accordance with any applicable instructions issued by TMRC and BoT.

(j) Reports:

The bank shall prepare and submit to TMRC defective loans and partial prepayments reports on monthly/ quarterly basis.

(k) Audit:

TMRC shall have the right to request the bank to appoint authorized agents to examine and audit all records pertaining to the mortgage loans refinanced by TMRC.

(l) Prepayment of Advances:

Prepayments will be subject to a prepayment fee negotiated in advance. In the event that, for any reason, such a loan becomes due and payable prior to its originally scheduled maturity date, TMRC will charge a prepayment fee sufficient to render TMRC indifferent to such prepayment. Prepayment fees are due and payable on the date the advance is prepaid.

Any member that has submitted a letter of intent to withdraw from membership in TMRC may not borrow under any advances program with a maturity date beyond the effective date of the member's withdrawal. When a member has submitted a letter of intent to withdraw from TMRC, any outstanding advances with maturities extending beyond the date of withdrawal are subject to immediate prepayment of principal and interest, as well as appropriate prepayment fees, either on or before the withdrawal date. In the event of an involuntary termination of membership, whether by merger, acquisition, regulatory action, or otherwise, TMRC may allow a non-member to assume the outstanding advances of the former member. If TMRC allows the non-member to assume the outstanding advances, these advances must be fully secured by qualified collateral delivered to TMRC.

Loan Eligibility Criteria for Refinancing

TMRC will have an important role to play in setting market standards by setting minimum loan criteria for refinancing. Only loans meeting the criteria set out below would be acceptable as eligible collateral for TMRC's refinancing program.

a. Loans refinanced by TMRC should be fully disbursed and should be for the purchase, refinance, construction or renovation of a residential unit.
b. TMRC will set a maximum price for the properties for which the loans are granted that could be eligible for refinancing.
c. Loans refinanced with TMRC should have 25% over collateralization.
d. TMRC will accept only first liens.
e. The mortgage loan payments are up to date at the point of refinance.
f. The mortgage loan refinanced should at the time of refinancing have a remaining life which expires on or after the review date.
g. The mortgage loan will have performed for a minimum of 6 months prior to being used for refinancing.
h. The mortgaged property is insured against fire.
i. To the best of the knowledge of the mortgage originators, the borrower is not a discharged bankrupt or no bankruptcy proceedings have commenced against the borrower.
j. To the best of the knowledge of the mortgage originators, the borrower is not deceased.
k. The loan has been extended in local currency only.
l. The borrower is a natural person.

Funding and Pricing

Sources of Funding:

1. Initially IDA loan disbursed through BoT.
2. Paid-Up Capital.
3. Corporate Bonds. TMRC will start issuing corporate bonds in its later years of operations. The share of market funding through bonds will be progressively increased over time and the maturities of the bonds will be progressively extended as the market matures, making TMRC financially independent and sustainable in the long run.
4. Lines of Credit from banks
5. Money market borrowings

Pricing of Loan from BoT:

BoT will initially make loans to TMRC to provide with its initial funding. The loans provided to TMRC from BoT will be from the IDA loan to BoT. It will do this on a market basis as closely aligned to market pricing as it can. As the project progresses, the pricing of the BoT loans will gradually become more expensive which is intended to provide an incentive for TMRC to move towards funding itself through the private bond market. During the first years of accessing the bond market a credit enhancement will be provided in the form of a spread reduction funded by BoT which will lower the cost of funds to TMRC. By the end of year 5, BoT will cease to provide funding to TMRC and it will raise its own funding at market rates without any credit enhancement.

Price of Loans to Mortgage Lenders

The final price to mortgage lenders will then see an additional 75 basis points added on to cover TMRC costs and its return on equity. It is expected that TMRC will initially provide loans ranging from 1 year to 5 years in maturity, which reflects the liquidity of the bond market at these levels. As the bond market develops, longer maturity bonds can be issued, and longer term financing can be envisaged.

Regulatory Treatment of TMRC Bonds

TMRC will address the long-term funding constraints hindering the growth of the mortgage market. TMRC will serve as a source of long-term funding at attractive rates whilst ensuring prudent lending practices by banks. This will reduce the maturity mismatch for banks and increase the loan terms. This would in turn improve the affordability of mortgages and extend the range of qualifying borrowers

and result in the expansion of the primary mortgage market and home ownership in Tanzania. In order to achieve its objectives, TMRC will need to make its bonds as an attractive investment instrument to potential institutional investors, particularly the banks, insurance companies and pension and provident funds. For this, TMRC will need some regulatory concessions and incentives for its bonds in the start-up years of its operations. These concessions can be gradually removed once TMRC establishes its name in the market. The whole purpose of the regulatory concessions is to reduce the cost and time taken for bond issuance thereby enabling TMRC to pass on the low cost funds to primary lenders who will be able to originate mortgages at attractive mortgage rates.

Tanzania Mortgage Refinance Company (TMRC) is a financial institution owned by the banks with sole purpose of supporting banks to do mortgage lending by refinancing banks' mortgage portfolios.

Tanzania Mortgage Refinance Company Limited (TMRC)
15th Floor, Golden Jubilee (PSPF Building), Ohio Street,
P O Box 7539, Dar es Salaam, Tanzania, Tel: +255 22 2133868/9, Fax: +255 22 2133837
Email: info@tmrc.co.tz, Website: www.tmrc.co.tz