**CRITERIA FOR INSTITUTIONS TO PARTICIPATE IN THE HOUSING MICROFINANCE FUND**

**April, 2015**

**1.0 PREAMBLE**

The housing challenges in Tanzania are multiple ranging from rapid urbanization, infrastructure issues, provision of long term finance, supply of affordable housing and property/title registration. In a bid to address these challenges the Government of Tanzania (GOT) signed a Credit Agreement with the International Development Association (IDA) for the Housing Finance Project (HFP) in March 2010 and mandated BOT to be an Implementing Agency. The HFP is a USD 40 million project whose development objective is to expand access to affordable housing finance under market-based conditions for the purchase, construction, or improvement of housing. The project has three components namely (1) Development of the mortgage market; (2) Expanding access to housing microfinance; and (3) Expanding the supply of affordable housing by private developers.

Further, in March 2015, the GOT signed another Credit Agreement with the IDA for the HFP Additional Finance. The HFP Additional Finance is a USD 60 million project with the same development objective as the parent HFP with same components.

The Housing Microfinance Fund (HMFF) falls under Component II. The main objective of this Component is to develop access to medium-term affordable housing microfinance. This follows the observation that income levels across most of Tanzania remain low and housing-microfinance may be better suited than traditional mortgages to the needs of many borrowers. The component therefore targets the middle/low income Tanzanians who may be working in the informal sector or who may not be able to provide a property title as collateral.

Initiatives for implementation of component II included a Housing Microfinance Market Study which was carried out by Frankfurt School of Finance from March 2012 and work was completed during 2013. The objective of the study was to conduct a comprehensive assessment of prospects and obstacles to development of housing microfinance; and to determine demand and supply of housing microfinance that could form basis of business plans for lenders wishing to enter the market. The study also provided recommendations for the design and implementation of a comprehensive capacity building program, and developing and implementing a training and dissemination program. A baseline market analysis on housing microfinance in Tanzania, which included a demand-supply study for HMF products, and obstacles to its development both in terms of legal and regulatory constraints, as well as the market mechanisms and lender capacity, was established.

Key findings of the study included the fact that the existing mortgage market excludes the vast majority of the population due to their low income levels. Further, the study established that there is a high demand for housing microfinance products with potential demand being over TZS 700 billion compared to the supply, which based on the outstanding balances of the few suppliers of HMF loans was only TZS 2 billion. The study also highlighted some hurdles encountered by low income earners in accessing mortgage financing which included their inability to provide documented proof of their incomes which makes it difficult for commercial banks to provide them with financial services including mortgage financing. However, such obstacles are minimal for microfinance institutions in which case they have a lot to offer in terms of lending methodologies. The other limitation low income earners encounter was on the volatility of income, fear of high interest rates and lack of collateral.

To address challenges highlighted in the study mentioned above, a liquidity facility, HMFF, for provision of housing microfinance loans to lower segments of the society was created. The establishment of HMFF is designed to provide liquidity to financial institutions for them to engage in provision of long and medium term Housing Microfinance loan products at reasonable cost, relaxed collateral requirements and hence reach a wider section of homebuilders who may not qualify for traditional mortgages mortgage loans and/or who intend to use funds for renovation or incremental construction.  This will enable a wider population to gain access to housing microfinance thereby reduction of poverty in line with Tanzania’s poverty reduction strategy. HMFF will also provide technical support (capacity building programme) to the financial institutions to enhance their capacity to effectively manage Housing Loans underwriting procedures and risk management techniques for such products.

HMFF was formally established in April 2014 through a *Public Finance (Housing Micro Finance Fund Establishment) Order 2014* issued by the Minister for Finance. The Order was published in the Government Notice No. 128. Further, an Agency Agreement between the Ministry of Finance (MOF) and the BOT was signed in May 2014 for the latter to implement the five years pilot phase.

The Fund will initially be financed by the GOT through a Credit from IDA to the tune of USD 18.0 million.

**2.0 THE GUIDELINES**

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| **Objectives** | 1. The objectives of these guidelines are to provide eligibility criteria for microfinance and banking institutions that wish to participate and obtain loans from the HMFF for on-lending to the targeted group.
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| **Agreement** | 1. The eligible institutions must agree that the Loan granted is for on-lending to the targeted group for housing microloans and is made subject to all representations and warranties made by the eligible institutions based on the data, documents and information provided to HMFF.
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| **Application for a loan** | 1. Eligible institution that intends to apply for a loan from the HMFF shall do so by a letter in the form prescribed in the Appendix 1.
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|  | 1. The application letter shall be accompanied copies of registration certificates, valid business licence and of each of the documents listed in the Appendix 2.
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| **Authentication of the application document**  | 1. A loan application shall be signed by the directors of the applicant or a person authorized by the applicant and submitted together with authenticated legal documents or board resolution authorizing the signatory.
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| **Proof of use of the loan** | 1. The applicant of a loan shall provide a written proof of existence or plans to introduce a housing microfinance product in the institution’s business activities and that the loan shall solely be used for housing microfinance products.
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|  | 1. The applicant of a loan shall provide evidence of microfinance or housing microfinance lending business strategy including projected house micro loans book, product policy, and operational policy.
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| **Other considerations** | 1. Every applicant shall, also provide the following:-
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|  | 1. policies and procedural manuals establishing how the housing microfinance product shall be operated.
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|  | 1. description of accounting system and information and communication technology to be used in the operations of the institution and proposed housing microfinance product;
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|  | 1. description of internal control procedures that the institution shall implement;
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|  | 1. narrative description of shareholders, board and senior management and strategy for the successful operation of the housing microfinance product;
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|  | 1. The Bank of Tanzania shall, if deems necessary, visit the applicant to confirm existence of the institution, adequacy of management information system, administrative and operational processes and internal control system.
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| **Financial capacity** | 1. The Bank of Tanzania shall evaluate the financial capacity of the applicants.
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|  | 1. The soundness of an applicant’s financial position, their business affiliates and the financial condition of those businesses shall be measured on levels of capital as shown on balance sheets and the potential financial support that may be made available should the borrowing institution fail to repay the loan for whatever reason, including losses in its operations.
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|  | 1. The Bank of Tanzania shall assess the ability of the applicant and their business affiliates to pay their current obligations from their income, reasonability of valuation they assign to their assets, and their net-worth in relation to other liabilities.
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| **Proof of availability of capital** | 1. Every applicant shall provide to the Bank of Tanzania assurance that it has sufficient capital for its operations.
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| **Legal form and Licence status** | 1. Every eligible institutions must be organized in the form of a company limited by shares and incorporated under the laws of Tanzania and has microfinance products in its normal course of business.
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|  | 1. The eligible institutions must be licensed and regulated by any Government Agency, and offers or intend to offer housing microfinance products to individuals.
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| **Governance** | 1. At all time, the officer in-charge of the housing microfinance of the applicant shall have a satisfactory record of experience in managing microcredit or housing microfinance portfolio.
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| **Minimum capital**  | 1. Every borrower must be meeting the regulatory capital and capital adequacy requirements as stipulated by its respective regulator.
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| **Risk management policies** | 1. The borrowing institution must have appropriate policies on risk management and an undertaking that it shall be fully responsible and accountable for the execution of such policies.
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| 1. The policies shall at least include a credit policy establishing a framework for making credit and investment decisions, including:-
2. a system for measuring and monitoring credit risk;
3. internal risk rating system;
4. provisioning standards;
5. procedures for identifying risk concentration;
6. periodic review of the effectiveness of monitoring and reporting systems for risk concentration; and
7. maximum amounts that can be approved at every level of discretion, as well as the documentary and procedural requirements and the internal controls to be maintained.
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| **Grant of a loan** | 1. The Bank of Tanzania shall, within thirty days after receipt of a complete application for a loan, or where further information has been required, after receipt of such information, grant a loan or reject the application.
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|  | 1. Where an application is denied, the Bank of Tanzania shall, in writing, inform the applicant of the reasons for the denial.
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|  | 1. An applicant whose application has been rejected may re-apply, if the issues which were the basis for rejection of the application have been addressed.
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| **Collateral for the loan** | 1. Collateral for the loan can be registered collateral or contractual pledging of business assets. Registered collateral means a fixed charge Debenture and a floating charge specific Debenture whatsoever, present and future in favor of HMFF over specified loan portfolios covering not less than 110% of the value of the Loan. It may also include borrowing institution’s Treasury Bills or Bonds with written authorization to pay HMFF directly.
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| **Rate of Interest** | 1. The rate of interest shall be 182-day T-Bill yield with a discount. Every last Friday of the month the 182-day T-Bill yield will be taken and form the new reference rate. The discount is for a maximum amount of 5 per cent, and is applicable only to that portion of the interest rate above 10 per cent. This effectively means that if the calculated rate falls below 10 per cent no discount applies. Or for example if the calculated rate is 11.5 per cent, the discount would amount to just 1.5 per cent, taking the rate down to 10 per cent. Data on Government securities will be taken directly from BOT website.
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| **Tenure of the Loan** | 1. The tenure of the loan from the HMFF to the borrower shall be of up to 15 years.
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| **Submission reports** | 1. The borrower shall submit to the Bank of Tanzania monthly reports on classification and provisioning of credit accommodations and other risk assets including contingent accounts not later than the 15th day following the end of the reporting quarter. In addition, the borrower shall submit to the Bank of Tanzania quarterly reports on:
2. Number of active clients to determine the outreach.
3. Average outstanding balance per client
4. Statements of Financial Position and
5. Statements of comprehensive income.
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| **Miscellaneous conditions** | 1. Borrowing institution:
2. must ensure that Home Buyers issued with Housing Microloans shall have title or residential license over the land on which the financed house is situated;
3. must ensure that Data proofing the Home Buyer’s identification and any other third parties that may act as finance guarantors; the Home Buyer’s financial status/position, income, creditworthiness and repayment ability are maintained;
4. shall include in the Housing Microloan agreement a clause by which the individual borrower approves that lender may pass any information related to the Housing Microloan related documents or copies of such documents to HMFF;
5. shall include in the Housing Microloan agreement a clause that authorizes HMFF to conduct physical inspection of the residential home being purchased, built, financed, extended, restored or finished, and other details submitted by the client;
6. is encouraged to partner with developers to ensure the funds are used to originate houses and for the targeted group;
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|  | 1. Borrowing institutions are required to participate “safeguard workshop/training” organized by the Bank of Tanzania prior to disbursing the loan to the target group”.
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**Appendix 1: Application for a Loan**

The Governor

Bank of Tanzania

P.O. Box 2939

Dar es Salaam

**TANZANIA**

**Re: Application for a Loan under the HMFF**

Dear Sir,

We, the undersigned, hereby apply for a loan of TZS \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_for our ongoing/new housing microfinance business activities. Our Institution is known as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ with principal place of business at \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

The institution has an authorized share capital of \_\_\_\_\_\_\_\_\_\_\_\_\_\_ shillings and paid up capital of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ shillings.

In support of this application, we submit herewith the documents listed in the accompanying checklist. We certify the correctness of all the information indicated in such documents to the best of our knowledge and belief.

We hereby authorize the HMFF and any of its authorized agents or staff members to make an enquiry or obtain any information from any source for the purpose of determining the correctness of all the representations made in connection with this application or of assessing its merits.

Yours faithfully,

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**Appendix 2: Checklist of Documents**

1. Letter of application in the prescribed form.
2. Authenticated legal documents or board resolution authorizing the signatory.
3. List of members of board of directors and Chief Executive Officer.
4. Audited balance sheet, income statement and cash flow for the last three years
5. Certified copies of tax returns together with respective Tax clearance certificates.
6. Declaration that the funds shall solely be invested in housing microfinance only.
7. Business plan for the first four years of operations including strategies for growth and sustainability.
8. Projected balance sheets, income statements and cash flow statements for the first four years of operation.