

Address by

The Minister in the Ministry of Finance
Senator the Honourable Christine Sahadeo

at the Conference of

Caribbean Association of Housing Finance Institutions
(CASHFI)

"The Impact of Globalisation and Regulatory Reform within
CSME
on the Sustainable Development of Housing Finance
Institutions"

Trinidad Hilton and Conference Centre

Friday May 8, 2007

At 1:30 p.m.

Fellow Ministerial Colleagues

Executive Committee of CASHFI

Directors of the Board and Management of TTMF

Caribbean colleagues and friends

Members of the media

Specially Invited Guests

Distinguished ladies and gentlemen

A pleasant Good Afternoon to you all:

It gives me great pleasure to address you this afternoon about initiatives and strategies for the sustainable development of housing finance. I will share with you the progress that we have made here in Trinidad and Tobago as it pertains to the Government's housing policy, and in so doing, provide some material to continue the discussion that is to follow in your workshops.

The Government's National Housing Policy "Showing Trinidad and Tobago a New Way Home" All agencies involved in the delivery of houses are organised to improve the total housing delivery process including making housing more affordable.

The Housing Policy emphasised 'affordable housing'. 50% of the demand for new housing comes from families whose household income is less than US\$700 or approximately TT \$4,000 per month. This demand requires that the production of housing units be increased by a minimum of 10,000 units per annum over the next ten years- 8,000 Government, 2,000 private sector.

Of necessity, such a rapid increase in inventory requires that the Government take the initiative in every aspect of the provision of shelter:

- .construction of units and the required financing
- economic evaluation and assessment of prospective home owners
- subsidies where necessary to improve affordability, and
- institutional strengthening of the agencies mandated to implement all aspects of the policy.

Housing as a pillar of the Economy

Housing and housing finance, has for too long been taken for granted. The importance of housing in the macro economy can be illustrated by a

few key statistics. **Home ownership is a cornerstone of social stability.** On average between 20 to 40 % of household monthly income is spent on housing services, in some instances it can be as high as 50%. The numbers show that over 60% of household wealth is held in the form of housing and that mortgages are the largest component of household debt. The world invests anywhere between 3 to 10 percent of GDP annually on housing construction, providing jobs for the construction and real estate services sector and account for between 5 to 10% of workforce. Construction in the housing sector is regarded as an important domestic engine of growth.

Housing is important because it has economic as well as social implications. For households, **owning one's home is not only an important form of social security, but also the best form of real savings.** In most developed economies, individual home ownership ratios are high; ranging from 60 % in Hong Kong, to 65% in the UK and the US and 84% in Singapore, in Trinidad and Tobago it is a solid 76%. Widespread homeownership offers not only equitable wealth distribution, but is a fundamental objective of any market economy with a social equity responsibility.

Traditional methods of financing housing are no longer sufficient. We need to find new ways to approach housing finance in the market that is now being created. **A financial system intermediates between savings and investment.** The financial sector is a derivative of the real economy. From the household point of view, the financial system, as the primary repository of household savings, **provides four key services for households.** The payments, transactions and liquidity needs of the household are met by the banking system and to a lesser extent by credit unions which together operate the payment system. At the other end of the liquidity spectrum, the retirement and social security services for households are provided by the insurance and provident and pension funds.

Ladies and Gentlemen, a new form of financial service that is rapidly emerging as the world population ages is **the reverse mortgage, whereby the retired house owner draws down on his equity in the property.** **More and more innovative financial institutions are**

beginning to provide this type of financial instrument. In other words, the financial system is helping the households manage their risks better.

Ladies and Gentlemen, whereas our culture is different, reverse mortgages will become more of a necessity as life expectancy increases and people desire an enhanced social life on retirement.

Ladies and Gentlemen, for the first time in the history of Trinidad and Tobago, we have a comprehensive vision of shelter for all families.

Among its major features are:

- higher loan amounts due to rising prices for real estate
- lower interest rates
- increases in the approved mortgage price limits taking into consideration the rising prices
- reduced costs to the home owner
- home improvement and land loans; and
- providing loans for renovations and maintenance and the development of other financial opportunities.

Ladies and Gentlemen, these are the facets of the Government's Housing Policy that will ensure its sustainability and contribute to the future economic well being and wealth of our people. **Let us examine the facets of this approach to our mission for housing.**

In Trinidad and Tobago, income earned by companies involved in financing under the affordable housing programme, - approved mortgage companies as they are referred to, are exempt from taxation. We are pleased that all commercial banks, mortgage finance companies and trust companies are participating in this programme. In 2002, the Government increased the value of the property for consideration of tax exempt income to \$450,000, while at the same time we reduced the mortgage interest rate to the homeowner from a range of 8-9% to 6-8%.

This occurred in a falling interest rate environment with reduction in the reserve requirements of commercial banks and resultant benefits to the consumer.

In the next step of the process, the Government addressed the financing needs of the homeowner.

The need to set aside savings for a down payment is a discipline that few are able to accomplish at the income level of greatest need. At the same time, increasing real estate values rendered the market value of the property above the ceiling of many potential homeowners. For this, the Government of Trinidad and Tobago, through its agencies, has agreed to finance 100% of the cost of purchase of properties within government housing projects. Further, in recognition of the implicit equity afforded the new homeowner, TT\$15,000 or US\$2,500 has been added to the mortgage amount to provide for the purchase of basic appliances.

In addition, funding has been provided for a new 2% financing programme which will give homeowners at the lowest income levels, a subsidy that will allow for acquisition in the shortest possible time, subject to review in five years to bring them to market rates. More than 2,000 applicants have already been assessed for this facility.

Ladies and Gentlemen, for the housing finance market to mature, we need liquid secondary mortgage markets and the associated derivative markets, as in the case of the US. Secondary mortgage markets provide a channel for the banks to offload their mortgages as and when needed. Furthermore, the securitisation of mortgages helps develop the capital market, by matching long-term savings to meet the demand for long-term home financing. Thus we see more and more economies beginning to create secondary mortgage markets to manage the asset concentration and liquidity risks.

The second issue relates to the income side and concerns about the measures to raise borrowing affordability. Availability in the housing finance market will be influenced by the willingness of lenders to provide financing for housing as a long-term asset. International experience suggests that access to housing finance is much more important than subsidised finance. Housing affordability can in fact be improved by carefully designing the structure of the mortgage, for example, by lengthening their loan maturity

However, a healthy and efficient housing supply market would come along with healthy primary and secondary mortgage markets. A healthy

primary mortgage market provides sufficient funds to finance home acquisition, through banks or specialised housing finance institutions. However, there is a need to develop deep secondary mortgage markets, which will facilitate long-term savings to be efficiently allocated to the financing of long-term investments, and thus help manage maturity.

In T&T we have both public and private financing. The primary mortgage market comprises commercial banks, trust and mortgage institutions, merchant banks, and insurance companies. Interestingly we also have at least one credit union. Most of our trust companies and merchant banks are affiliated to commercial banks. Pension funds and insurance companies are allowed to provide mortgages up to 20% of total assets.

Trinidad and Tobago is the only country in the Caribbean that has a secondary mortgage market and this is managed by the Home Mortgage Bank. The institution gets most of its financing from the issuing of bonds.

Permit me, Ladies and Gentlemen, to discuss the two major structural changes in the mortgage market since 2003. The reduction in the reserve requirements on commercial banks from 18% in 2003 to 11 % in 2004 brings this in line with the reserve requirement of non financial institutions. Therefore, the incentive for banks to channel long term funding to trust companies have declined.

Financial institutions are now evolving from compartmentalized groups to conglomerates offering the whole range of financial services for households. This has also contributed to the merger of insurance companies and, banks and the acquisition of asset management companies by banks, have transformed the financial system. It reflects not only a new way of doing business, a one-stop centre for financial services for households, but also a revolution in asset-liability management. In other words, modern risk management has arrived in the housing finance market.

Ladies and Gentlemen, I now turn to the Government's initiative in the provision of land for the construction of houses.

FORMER EMPLOYEES OF CARONI: Residential land

In order to make available more plots to meet the housing needs of the citizens of this country, the Government took the decision to expand the twenty two (22) sites, which initially comprised 7,000 plots, and are being developed on lands formerly owned by Caroni Limited to include nine additional sites, and make available approximately 22,023 service plots.

From these plots, approximately 5000 have been reserved for the former employees of Caroni (1975) Ltd. Approximately 2,400, have been reserved for the middle income owners who have been squeezed out in the past, that is to say, they cannot access subsidy nor can they afford the prevailing prices.

The balance will be distributed to the national community.

Ladies and Gentlemen, these developments have been provided with the most modern infrastructure, including water and sewerage facilities, roads and drains and cooking gas pipelines. In most cases electrical lines are installed in underground corridors using state of the art technology.

To make the land more affordable Government agreed to absorb all of the infrastructure costs amounting to approximately \$1.6 Bn.

Ladies and Gentlemen, the lands would now be sold at the substantially reduced price of \$20,000, \$25,000 and \$30,000 per 5000 square foot.

STANDARDIZED MORTGAGE DOCUMENT

Ladies and Gentlemen, the Government in recognition of the impact of legal costs and ancillary charges for the purchase of housing, Government has recently approved standardized mortgage documentation for use by all lenders under the approved mortgage company programme. This may seem a technical improvement but will reflect very real dollars and cents to the prospective homeowners.

The new demand mortgage format will result in reduced legal work by attorneys and therefore the implied reduction in fees. It allows more flexibility for future lending by the mortgagor/homeowner and less costs to the lender in the event of default. Low transaction costs will result in portability. I am optimistic that this will bring interest rates down.

By this means, the mortgage financing process will take on, if not simple, at least a less complicated, timelier approach for all the players involved.

In particular, especially in the light of your discussions around the impact of the CSME on the peculiar interests of the housing finance sector, is the ease of transferability of the mortgage to other qualified borrowers, as well as assignment of the mortgage to other willing lenders.

In essence, we will come to a place where open mortgages will allow that home ownership provide a security base for additional financing as the need arises at little or no additional cost. This, of course, with appropriate evaluation of the ability to repay and consideration of market values of the property.

The secondary market institutions, like the Home Mortgage Bank, will be required to play its part in supporting the financial infrastructure for

new business, thus ensuring sustainability in the cost of financing and the availability of ongoing funding to the housing finance sector.

While I have emphasized the Government's initiatives, the private sector continues to play its part in giving balance to the availability of housing at all income levels. This too adds to the sustainability of the programme and the future development of all industries impacted by the need for shelter.

Ladies and Gentlemen, the Government of Trinidad and Tobago is creating homes and communities not just basic shelter.

Adequate housing is one of the key deliverables - and may I add very measurable. It is a fundamental part of our strategy in attaining developed country status by the year 2020. The core principles behind this philosophy are that every citizen has the right to access adequate shelter; and that housing must be affordable to all citizens.

It has been estimated that to achieve this goal the country must build Page

approximately 100,000 homes, over the next 10 years. Such a programme will also generate an accumulation of wealth through property ownership by the target beneficiaries and foster a significant level of job creation.

In keeping with these developments, 2006 experienced an impressive level of activity in the housing sector, with approximately 8,000 new housing units being constructed throughout the country and infrastructure and land being developed for the construction of further housing.

Ladies and Gentlemen, let me conclude by saying that the Government of Trinidad and Tobago expects that, over the next five year period, fulfillment of normal demand will result in a stable, sustainable sector poised for new development and expansion. Housing is a basic human need- its quality, cost and availability are crucial to an individual's quality of life. The Government of Trinidad and Tobago recognizes this and is committed to the sustainable development of the housing sector and that every citizen has access to adequate and affordable shelter.