IFC

Financial Institutions Group (FIG)

Housing Finance: Mortgage Refinancing Companies

As of September 2024

Objectives of establishing an MRC

The primary objective of establishing a Mortgage Refinancing Company (MRC) is to expand the availability of mortgage finance and affordable housing in emerging markets and developing economies by channeling long-term funding to mortgage lenders. In parallel, an MRC can play an important role in developing both mortgage and capital markets.

IFC's approach to MRCs

IFC aims to expand the affordable housing sector by providing equity and long-term financing for MRCs in emerging markets. MRCs boost stability in the sector through liquidity management for primary lenders, strengthen competition, lengthen tenors at attractive rates, lower overall costs by pooling issuances, and create high quality long-term investment opportunities for institutions.

Readiness factors of an MRC

Markets need to reach a certain level of volume to sustain a refinance company. The table below summarizes key factors in assessing readiness for an MRC:

Macro Conditions	Low and stable inflation
	Low interest rate environment
Primary Mortgage Market	Size of market and annual new lending
	Standardized underwriting criteria
	Portfolio quality
	Supply of new affordable housing units
Capital Market Absorption Capacity	Investor base
	Public and private debt issuance
	Yield curve
Legal and Regulatory Framework	Mortgage foreclosure
	Ease of title registration process

Governance of an MRC

MRCs are typically capitalized with substantial debt and limited equity, and are therefore highly leveraged. The majority of equity is held by the mortgage originators/ lenders that use the facility.

IFC investments in MRCs

IFC has been actively supporting the life cycle of MRCs across West Africa, Egypt, Tanzania, Kenya and Pakistan. IFC invests in direct equity at establishment, lends to help launch operations, anchors bond issuances while they mature to readiness, and advises at sector and firm level.

Operations of an MRC

MRCs typically refinance mortgage loans that are originated under eligibility criteria or minimum quality standards based on international best practices and domestic regulations. MRCs usually only refinance residential mortgage loans due to their significantly lower risk profile as compared to developer or infrastructure loans. Residential mortgage assets are generally high quality with much lower delinquency and default experience compared to other types of housing finance loans. However, over time MRCs may add additional refinancing products either through separate “windows” or subsidiaries, which allows them to segregate the risks and funding sources.

Capital markets and MRCs

MRC bond issuance programs typically begin with simple corporate debt issues that have minimal requirements in market infrastructure. Over time, MRC issuances become more complex as their lending activities progress. Long-term bonds, such as MRC debt, are highly sought after by institutional investors for portfolio diversification. Hence, capital market funding is an important way to bridge asset-liability mismatches, and one of the few routes for institutions like MRCs.

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