

MORTGAGE BANKING/HOUSING FINANCE
SECTOR IN NIGERIA:

PAST. PRESENT. FUTURE.

PRESENTED BY:

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**AT NIGERIAN REAL ESTATE 2011: MARKET REVIEW AND MARKET
PROJECTIONS**

FOUR POINTS BY SHERATON

FEBRUARY 3, 2011

8:30AM – 5:30PM

BACKGROUND

Governments all over the world acknowledge that housing is one of the surest means for the creation of jobs, eradication of poverty, reduction of corruption and ensuring the security of the Nation. However the Will to progressively entrench this Fundamental Human Right is lacking in Nigeria, 50 years post-independence.

Housing, a basic human need taken for granted in most developing Countries has been an elusive provision in Nigeria for many years. The acquisition of houses through mortgages still remains a major challenge today for the following reasons:

- i. Affordability gap in home ownership
- ii. Dearth of long Term Funds
- iii. Critical Need for Enhanced Capital and Resource Base of Primary Mortgage Institutions (PMIs) and the Federal Mortgage Bank of Nigeria (FMBN)
- iv. Difficulty in accessing Land and secure title to Land due to the shortcomings in the provision and implementation of the Land Use Act of 1978.
- v. Inadequate Legal Framework
- vi. Inadequate Housing Infrastructure
- vii. Inadequate incentives, concessions and taxes and non-availability of insurance Framework
- viii. Insufficient production and high cost of building materials as well as inadequate skilled labour

Until recently, Nigeria had a housing deficit which would require a huge amount of funds in addition to having to produce a minimum of 720,000 housing units annually for the next 20 years in order to close the housing gap in the Country. Available statistics show that since inception in 1973 up to 2006, the various Federal Government Housing Agencies had not been able to build enough housing units to considerably close and reduce the seeming deficit.

There is also the critical need to significantly grow the contribution of the entire Mortgage Banking/ Housing Finance Sector to the Nation's Gross Domestic Product (GDP) which is currently put at 0.38%, compared to other Countries such as South Africa and Malaysia with an average rate of 40%. It becomes more apparent therefore the volume of re-engineering that needs to take place in the Mortgage Banking/Housing Finance Sector.

There is no doubt that one of the foremost challenges of the Nigerian economy is that of developing a sustainable housing and mortgage finance system which befits a dynamic, competitive and equitable economic & financial system such as ours.

KEY SUCCESS FACTORS

1a. EXPEDITED ACTION TO REVIEW MORTGAGE RELATED LAWS

There is an urgent need to review Mortgage Related Laws in the Country and passage of the following Bills that are currently before the National Assembly:

- The Land Use Act 1978
- The National Housing Fund Act 1992
- The Mortgage Institutions Act 1989
- The Federal Mortgage Bank of Nigeria Act 1993
- The Trustee Investments Act 1962
- The Nigeria Social Insurance Trust Act 1993
- The Insurance Act 2002
- The Investments and Securities Act 1999
- The Federal Housing Authority Act 1990
- Securitization Bill
- Foreclosure Laws Bill (Residential Mortgages Act & Residential Mortgages (Incentives) Act)

The primary impediment to the development of a virile mortgage banking sector is the Land Use Act (LUA) 1978 because it affects every aspect that relates to acquisition of affordable housing ranging from basic human rights to mortgage lending.

As a matter of priority, we are therefore putting up a strong advocacy platform for expunging/removal of the Land Use Act 1978 from the Constitution of the Federal Republic of Nigeria on or before May 29, 2011

Some of the benefits that would accrue from the above include, but are not limited to the following:

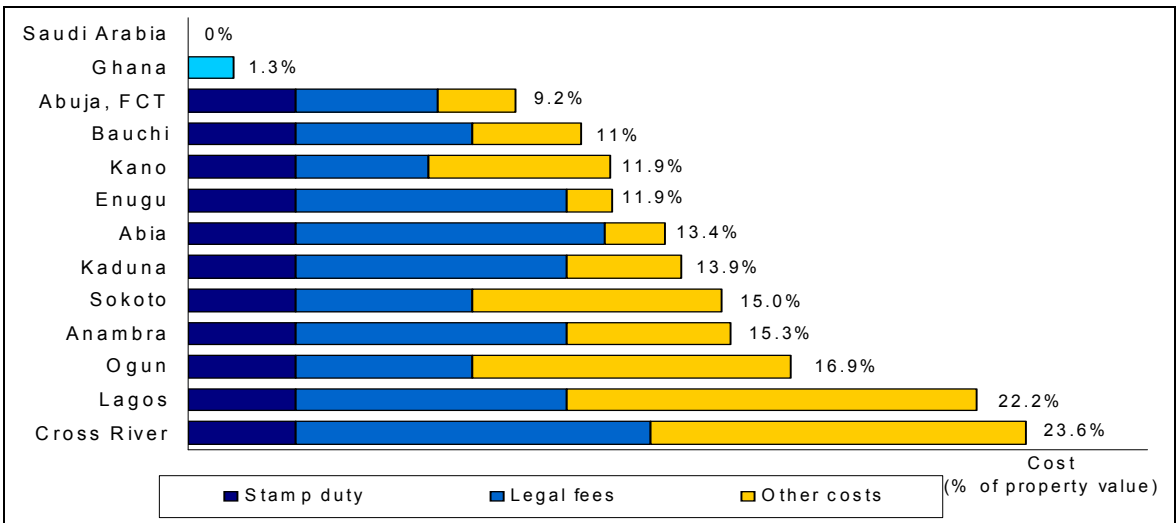
- Facilitation of easy and continuous Amendments to the Act, as and when considered desirable
- Obtaining Titles to Ownership of Land would be faster
- There would be Security of Tenure to Land
- Home Ownership by Nigerians would become affordable and faster
- Land would become a veritable source of wealth creation for Nigerians
- Contribution of Nigerian Mortgage Sector to GDP would become significant
- Higher output level in Nigeria, coupled with higher Productivity from Nigerians
- Increased Employment Generation and reduced Poverty level
- Significant downward trend in corruption/corruption-related matters

2. REDUCED COST FOR PERFECTION OF TITLES

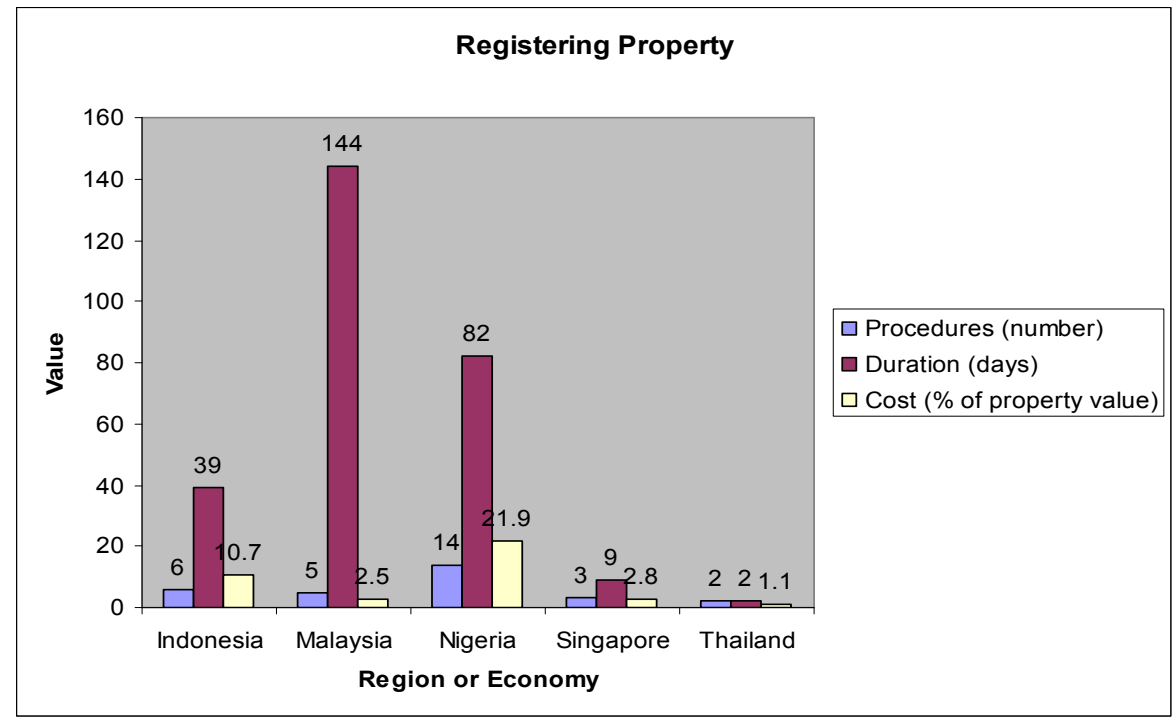
Transaction costs and the cumbersome process of registration of titles are the major impediments to perfection of titles and legal mortgages. We call for Amendment to the Land Use Act (1978) which makes it mandatory to obtain

Governor’s Consent on all Mortgage transactions, both at the Primary and Secondary Market Levels. For instance, Lagos State Government recently reduced the costs of registering titles in some of the Lagos State Housing Estates, which led to over 22,000 homeowners registering their properties. Such provisions across the Country would lead to a greater number of Nigerians legally obtaining their titles.

Costs To Register Property - Administrative Fees Vary



Source: FMBN-Overcoming Legal & Regulatory Challenges In The Nigerian Housing Finance Sector: *Costs to Register Property*



Source: World Bank (2009) *Doing Business*

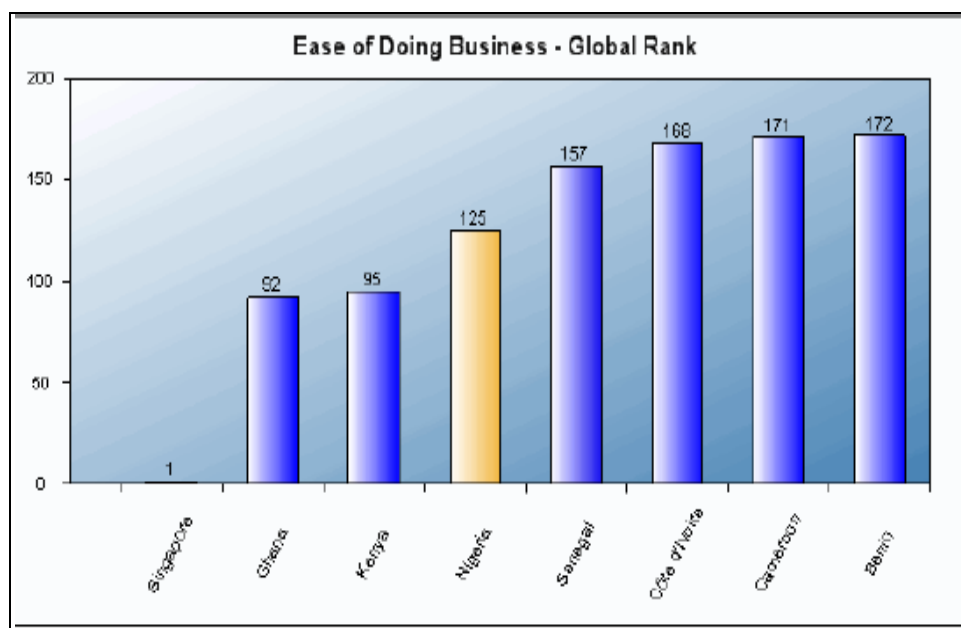
3. LONG TERM FUNDING

Liquidity risk and dearth of long-term funding sources are some of the main impediments to access to Mortgage Loan Facilities of longer tenure and optimal interest rates by Nigerians, and a major problem facing the Primary Mortgage Institutions (PMIs) today. Gaining access to Capital Market Funding Sources is one of the priorities of the Mortgage Banking Association of Nigeria (MBAN).

The establishment of a Mortgage Liquidity Facility (MLF) Institution as a Special Purpose Vehicle (SPV) in the Country will go a long way to address this problem, to a large extent, with the aim of providing the much needed long term funding for the Mortgage Banking/Housing Finance Sector, which is currently experiencing acute Long-term liquidity shortage and a general lack of enabling environment.

4. COMPUTERIZATION OF LAND REGISTRY OFFICES

In order to harmonize Land Administration practice and procedure nationwide, full scale computerization of Federal and State Land Registry Offices would need to be embarked upon immediately, on a wide-scale basis, taking cue from FCT, Lagos, Kano and some other States that had commenced necessary steps towards this end.



SOURCE: *DOING BUSINESS 2010 NIGERIA* [IFC]

5. CAPITALIZATION OF PMIs AND FMBN

To achieve our overall objectives, there is the critical need for the Recapitalization of Primary Mortgage Institutions (PMIs) and the Federal Mortgage Bank of Nigeria (FMBN) to suitably position them as prime players in the Primary and Secondary Mortgage Markets in Nigeria. As a result, both MBAN and FMBN as representatives of major critical Stakeholders in the Sector have agreed to collaborate towards achievement of the milestones required.

6. COMPREHENSIVE RESEARCH:

The Mortgage Banking/Housing Finance Sector requires comprehensive, rigorous and empirical research that would produce the facts, findings and insights which should be the basis for reforms within the sector. Policy Makers should tap from the available body of basic research and policy analysis with the professional, intellectual, and analytical framework that can be brought to bear on the design of housing and housing finance policies, institutions and structures that are thoroughly informed by the facts and findings from empirical study of our history, actual conditions and experiences, as they exist and operate across the country.

RECOMMENDATIONS

1. Removal of Land Use Act from the Nigerian Constitution for ease of amendments
2. Government Policies must look at provision of Minimum Initial Seed Capital of N500billion (Five hundred billion Naira) as Intervention Funds through the Central Bank of Nigeria (CBN) for the Mortgage Banking/Housing Finance Sector at a nominal interest rate of 1-2% p.a. to jumpstart Government Guaranteed Bonds for Mortgages in Nigeria
3. Development of a Robust Secondary Mortgage Market to increase long-term funds for housing delivery, with FMBN and MBAN as arrow-heads
4. Governments at Federal, State and Local Government levels should make provision for Housing Grants, Subsidies and Subventions in their Annual Budgets as a way of providing Low Rate Mortgages, for Social Housing to the Public Sector/Lower Class for Affordable Housing purposes
5. Subsidized Interest Rates on Mortgage Loans to make them affordable in terms of guaranteeing Long Term Loans to be utilized for funding Mortgages, especially for the Private Sector

OPPORTUNITIES

The new scenario in the Sector will create an array of opportunities such as:-

- Emergence of Real Estate Developers that are expected to produce houses to target prices for potential buyers.
- Enhancement of the capacity of Primary Mortgage Institutions to provide mortgage finance to individuals desirous of owning their own houses under robust Mortgage Financing Arrangements that would guarantee mutually beneficial relationships.
- Creation of Mortgage Pay Back Periods of Longer Tenure and at gradually reducing interest rate structures on a sustainable basis.
- Modernizing, Computerizing and Strengthening the Manpower Profile of Land Registries at the Federal, Local & State Levels, which are to become the Pivot for successful implementation of the new Housing Policy of the Government

- Expediting the process of Packaging and Securitizing the existing portfolio of Mortgages created by PMIs into Mortgage Bonds in the Short Term and Mortgage Backed Securities in the Longer Term to be sold largely, through Private Sector Liquidity Facility Company, FMBN, etc. to Institutional Investors such as Pension Funds, Insurance Companies, Securities Companies & Banks on one hand as well as through the Window of Capital Market on the other hand via Real Estate Investment Trust Scheme (REITS).
- The emergence and enforcement of the Foreclosure Clause in the new and unfolding mortgage financing dispensation and arrangements would be expected to regenerate the budding mortgage sector.
- The Housing Finance System would enhance the long term funding source for sustaining in a consistent manner, the production of Mass Housing Stocks.
- A restructuring of the National Housing Fund (NHF) Scheme into the National Housing Trust Fund (NHTF) Scheme would provide a new impetus into Housing Finance through the Federal Mortgage Bank of Nigeria (FMBN).
- The Ratio of Mortgage Loans & Advances to Gross Domestic Product (GDP) in the country would gradually increase from the current 0.38% to a fairly appreciable level and progressively moving towards 40% in South Africa, 50% in the USA; 60% in the UK; 55% in Europe and 35-40% in Asia, in years ahead.

MORTGAGE SECTOR ACHIEVEMENTS TO-DATE

- **MBAN/FMBN**

Through the development of a successful collaboration with the Federal Mortgage Bank of Nigeria (FMBN), MBAN is working to agree obtainable measures for the reform/ implementation of the following:

- National Housing Fund (NHF) Scheme
- Sustained exclusion of Other Financial Sectors in the on-lending window of the NHF Scheme
- Placement of Term Deposits with PMIs as currently being done with Commercial Banks i.e. expand the scope to include PMIs
- Collection of NHF Monthly proceeds from Contributors by PMIs, to deepen the NHF Scheme

- **MBAN LIQUIDITY FACILITY COMPANY LIMITED (MBAN-LFCL)**

MBAN/PMIs are taking the lead in coordinating the establishment of a Liquidity Facility Company in Nigeria via Tier 1 and 2 Capital from other Local and Foreign Stakeholders such as the Central Bank of Nigeria (CBN), World Bank (WB)/International Finance Corporation (IFC), and with a view to approaching African Development Bank (AFDB) and Shelter Afrique on same.

This facility will provide the access to long-term funds needed to boost the Mortgage sector and allow for increase in affordable housing/ homeownership

- **EXPUNGING THE LAND USE ACT 1978**

MBAN in collaboration with other Stakeholders has formed a Coalition Group known as the Land Use Act Amendment Advocacy Group (LUAAAG) to push advocacy for removal of the Land Use Act 1978 from Nigeria's Constitution. A Position Paper would very soon be submitted to Government Stakeholders and further action is being taken to schedule meetings/presentations on same

- **CONSOLIDATION/REFORM OF THE MORTGAGE BANKING SECTOR**

The anticipated Consolidation/Reforms of the Mortgage Banking Sector by the Central Bank of Nigeria (CBN) would be effected very soon and the new Minimum Regulatory Capital would be announced. Primary Mortgage Institutions (PMIs) would be re-designated as Mortgage Banks (MBs) in the Post-consolidation structure, with robust Guidelines for Business Focus.

- **MBAN/IFC UNIFORM UNDERWRITING STANDARDS**

MBAN is at the Concluding Stage with the International Finance Corporation (IFC) on creating uniform underwriting standards for the Mortgage Sector that would incorporate all Mortgage Underwriters in the Financial Sector

- **NEGOTIATIONS WITH NATIONAL PENSION COMMISSION (PENCOM)**

MBAN is exploring the possibility of optimizing access to the Pension Fund Scheme as an existing veritable source of Long term funding for the Mortgage Sector

MULTIPLIER EFFECTS OF DEVELOPING THE MORTGAGE BANKING/HOUSING FINANCE SECTOR

There would be ample and unlimited opportunities for creation of employment in the following Sectors/Markets of the Nigerian Economic Landscape.

Primary Mortgage Market

Primary Mortgage Institutions – Financing of Development Sites comprising of:-

- Residential Homes (Individual, Estate Developments (Low/Medium/High))
- Markets/Shopping Complexes
- Educational Institutions/Hostel Developments
- Industrial & Agricultural Parks – Housing Estates for Workers

Secondary Mortgage Market

- MBAN – LFCL i.e. Liquidity Facility Window for Mortgage Re-Financing Activities
- Mortgage Sector Intervention Fund – This will be utilized in the growth and development of the Mortgage Market
- Federal Mortgage Bank of Nigeria (FMBN) – To raise Mortgage Bonds.
- Securities & Exchange Commission (SEC) – To regulate Capital Market Activities for the Secondary Mortgage Market

Supportive Markets

- Real Estate Developers/Companies.
- Building Materials Producers & Sellers i.e. Cement etc.
- Securities & Exchange Commission (SEC).
- Nigerian Stock Exchange (NSE).
- Building & Roads Research Institute (BRRI)
- Capital Market Operators:
 - o Issuing Houses
 - o Stock broking firms
 - o Registrars
 - o Trustees
- Agriculture/Agro Allied Industries – Wood, Ceramic, Tiles etc.
- Consumer Items – Furniture, TV/Electronic items, Cookers, Electrical items, Air conditioners, Bed sheets/Beddings, Rugs/Carpets etc.

Professionals

Professionals, Skilled and Un-skilled Employees such as:-

- Architects
- Builders
- Estate Surveyors & Valuers
- Civil & Construction Engineers
- Structural Engineers
- Quantity Surveyors
- Artisans – Bricklayers, Block & sand Carriers, Food Vendors/Sellers, Water Suppliers