Evolution and Developments in the Nigerian Mortgage Banking Sub-Sector

Mortgage financing is the de-facto form of housing finance all over the world. It is generally enhanced by availability of long-term funds often linked to the capital markets to aid refinancing and securitization. Low interest rates, regardless of its nature i.e. variable, or fixed, also boosts mortgage financing. All these serve to ensure that loan tenure is elongated, usually spanning a minimum of 20 years. In addition, it is promoted by enabling legislature that confers strong property rights and aid quick foreclosure/eviction among other necessary legal issues. Mortgage financing also thrives where the business environment and operating model aid short loan origination period.

In Nigeria, Mortgage financing is nascent, being in existence for just about 6 decades compared to centuries of practice in America and Europe. At its inception in Nigeria in 1956 as Building Society, it was entirely focused on deposit collection and runs on full government involvement. This was its mode of operation for the first 3 decades until it was restructured in 1989 when FMBN was created as the secondary Mortgage Bank and private sector participation began through the creation of Primasry Mortgage Institutions.

When the Mortgage Banking Sub-sector of the Financial Services Industry in Nigeria took off, it was faced with several herculean challenges, among which are lack of long-term funds, fund mismatch (funding long-term with short term deposit), macroeconomic challenges in the form of high and volatile inflation, interest and exchange rates, which resulted in high cost of funds for both lenders and borrowers. The subsector was also adversely affected by slow, expensive and bureaucratic procedures of title registration and transfer, lack of mortgage friendly laws such as foreclosure/eviction laws and lack of strong property rights as well as cumbersome legal and legislative framework for land acquisition. Operations of mortgage financing was also hampered by the non-existent mortgage market infrastructure such as mortgage insurance, mortgage guarantee, mortgage collateral indemnity etc. These challenges seriously hampered the development, scope and reach of housing finance to different categories of Nigerians.

Within the space of about a decade, the subsector had however made remarkable progress in tackling these issues and the sub-sector has undergone significant evolution to keep up with global best practices. This was made possible by the efforts of the Federal Government, through the Central Bank of Nigeria as the external regulatory agency for the Mortgage Banks. Changes and evolution in the sub-sector could also be attributed to the advocacy of the Mortgage Banking Association of Nigerian (MBAN) Secretariat with relevant regulatory agencies and the concerted effort of the MBAN National Executive Council (NEC). The collective efforts of all Mortgage Banks also went a long way in bringing the subsector to its present state.

The first major initiative that transformed the mortgage banking business environment was the Recapitalization of Primary Mortgage Institutions and a change of their status from mortgage financing institutions to full fledged Mortgage Banks in Year 2011. This served to integrate the up-till-then fragmented environment which consisted of several (about 83) weak, struggling and ineffective mortgage finance institutions to a few (about 33) but stable mortgage banks which were better equipped to deliver on their mandate of providing housing finance to Nigerians. Next to this was the establishment of NMRC, in 2013. NMRC was established to ameliorate the issues of liquidity, funds mismatch (using short-term deposits for finance long-term assets) and access to long-term funds in the Mortgage Banking Sub-Sector. This was achieved by linking mortgage financing to the capital market, and refinancing loans created by primary mortgage banks. The establishment of NMRC marked a significant change from the deposit-based model of mortgage financing to a secondary market based system.

Further to the recapitalization of PMBs and the successful commencement of the NMRC, the Central Bank of Nigeria introduced a comprehensive review of the reforms within the framework of the National Financial System Strategy (FSS (2020). Consequently, it designed and implemented National Housing Finance Program (NHFP) to improve access of Nigerians to housing finance through the deepening of the mortgage sub-sector.

After the successful takeoff of NMRC, practitioners and regulators alike realized the necessity of deepening the primary mortgage market so as to enable the secondary market, which NMRC represents, to thrive. Until then, only Nigerians in formal employment could access mortgage loans. Both parties therefore went to work on expanding the scope of people eligible for mortgage loans. This birthed the creation of uniform underwriting standards for different categories of Nigeria, which up till then, were largely excluded from access to housing finance. In collaboration with the Central Bank, MBAN developed underwriting standards for Nigerian in the informal sector (i.e. self-employed and entrepreneurs), Nigerians in Diaspora and for non-interest housing finance for people who possibly for religious reasons may be disinclined from conventional mortgage banking. The development of uniform underwriting standards for different categories of Nigerians significantly boosted financial inclusion in the mortgage banking subsector (See previous article for details).

With more people eligible for mortgages, it became imperative to further strengthen funding sources for the Mortgage banks. The sub-sector therefore vigorously explored non-interest sources of funds for housing finance providers. In the same vein, relevant stakeholders embarked on a quest to improve the NHF business model, as a veritable source of housing finance in 2016. After a series of tripartite meeting involving the FMBN, MBAN and REDAN, NHF loan application processing time was successfully reduced from about 60 working days to 25 working days and loan approval time was also reduced from 30 working days to 10 working days. Loan disbursement time was also reduced from 30 working days to 5 working days. As a result of the improved turnaround time, FMBN disbursed more than N7billion as mortgage loan to over 800 beneficiaries in 2017 and the scheme also made a total refund payment of N6.6billion to 44,370 beneficiaries in 2017 against a cumulative figure of N7.4billion as at 2016. Due to the remarkable improvement in the administration of the NHF scheme, several non-contributing states indicated interest to rejoin the scheme in the first quarter of 2018. In addition, the Mortgage Warehouse Facility Limited (MWFL) was created to buffer the NMRC refinancing scheme by providing a short-term (30 – 90 working days) prefinance for mortgage banks to create loans which would be refinanced by NMRC.

Apart from improving funding sources, stakeholders in the mortgage-banking sub-sector also made significant achievement towards improving mortgage market infrastructures to further aid affordability. In 2017, MBAN and its constituent Mortgage Bank members successfully advocated for the amendment of the Pension Act to enable withdrawals from

RSA for down payments on equity contributions. The sub-sector also initiated the Collateral Replacement Indemnity (CRI), to increase Loan-to-value (LTV) of Mortgage facilities from 80% to 95%. The result of a local study[1] conducted in the Nigerian Housing industry revealed that loss of job is a peculiar risk to obtaining housing finance in Nigeria. In response to this, the mortgage banking sub-sector stakeholders initiated the 'loss of job insurance'. The scheme is meant to provide an insurance cover for anyone on a mortgage who losses his/her job after consistently repaying their mortgage for at least 6 months. Currently, the scheme covers default for only 6 month, but concerted effort is being made to extend the scope of the insurance.

Still in 2017, the MBAN secretariat commenced the registration of mortgage brokerage firms to lay the foundation for unbundling the mortgage finance value-chain in the near future. Also, as the housing finance operating environment is gradually emerging to become more favourable for mortgage banking businesses, it seemed to attract more participants, especially from the commercial banks and hence generating more intense competition. Mortgage brokers therefore acts as intermediary between mortgage banks and mortgage finance seekers. Currently, there are nine (9) registered and accredited mortgage brokers in the Nigeria mortgage-banking sub-sector. And the sub-sector is open to accrediting more.

In an effort to further create an enabling environment for mortgage banking and housing finance by reducing the risk borne by mortgage lender and to further deepen the primary mortgage market, the Central Bank of Nigeria initiated the Mortgage Guarantee in 2018 as a key part of the NHFP. Mortgage guarantee is aimed at providing full or partial guarantee to lenders against losses resulting from borrowers default or inability to contribute minimum required equity. Mortgage Guarantee Companies shall be funded through their paid up capital, debentures/bonds, loans from national and supra-natural government and other bodies and any other source approved by the Central bank of Nigeria.

Within the past 10 years, there has been several reforms and initiatives to deepen mortgage financing in Nigeria, most of which focused on creating an ambient macroeconomic environment for mortgages to thrive. A critical examination of these

[1] The study was conducted by Pison Housing Limited

reforms revealed that two critical areas – legal framework and land administration - still undermining the development mortgage financing in Nigeria. To fill this gap, the immediate past Director of the Other Financial Institutions Supervisory Department (OFISD), of the Central Bank of Nigeria, Mrs. Tokunbo Martins organized a workshop for mortgage sub-sector practitioners and members of the judiciary. This was done in attempt to proffer workable solutions to the legal impediments that clog the wheel of progress for the sub-sector and to improve timely adjudication of mortgage cases. In addition to this, the Federal government, through the NHFP commenced an on-going advocacy to the States of the Federation to adopt a mortgage foreclosure law. This model law is designed to ensure that foreclosure process, which until now is long, arduous, cumbersome and mostly in favour of the borrower, is no longer protracted and to the loss of the lender. Currently, the model foreclosure law has been adopted in Lagos and Kaduna States. MBAN is very hopeful that other States of the Federation will follow suit.

An assessment of the current state of Mortgage financing in Nigeria vis-à-vis other countries with developed and efficient mortgage financing system shows that we have evolved significantly from the depository-based model to a Secondary Market Model of mortgage financing and we have significantly surmounted the problem of funds mismatch. The reforms, initiatives and developments in the sub-sector have also begun to yield desired result as there is increasing latent and effective demand for housing finance. Total number of mortgage loans increased by about 84% from 14,866 in 2017 to 27,375 by first half of 2019.

The current state of the sub-sector could be likened to the concept of the ***'Flywheel Effect'*** in Jim Collin's book titled ***'Good to Great'***. Jim Collins likened a 'company [or an industry] to a massive, heavy flywheel mounted horizontally on an axle. The goal of the people involved in the company or industry is to get the flywheel to move as fast as possible, because momentum is what will generate superior economic results over time'. Before year 2011, the flywheel of the Nigerian Mortgage Banking Sub-sector was more or less at a stand still. With the recapitalization exercise, the sub-sector stakeholders made a commendable effort to get the flywheel to inch forward albeit, very slowly. With every reform and initiative embarked on to create an enabling environment for housing finance/mortgage banking and to deepen mortgage financing, the flywheel is gradually gaining momentum and moving faster. With the consistent and protracted efforts of the past nine years (2011 to 2019), the flywheel has gained considerable speed, however, it has not gained traction enough to keep moving on its own without being pushed. As industry and sub-sector stakeholders would not relent, we foresee a period in the very near future where all these effort would finally pay off and the flywheel will spin faster and faster, with its own weight propelling it, it will gain enough momentum to keep moving without any more external effort. At this point, we hope that thee would be increased and visible contribution of Mortgage Banking /Housing Finance to Nigeria's GDP from current 1% to at least 5% in the short run, 30% in the medium term, and about 65% in the long run.