

FINANCIAL INCLUSION IN THE NIGERIAN MORTGAGE BANKING SUB-SECTOR

As defined by the Central Bank of Nigeria in 2013, Financial Inclusion is a state where financial services are delivered by a range of providers, mostly the private sector, to reach everyone who could use them. More succinctly, it means 'a financial system that serves as many people as possible in a country' and provides a situation where eligible members of the economy do not have difficulty in opening bank account; can afford to access credit; and can conveniently, easily and consistently use financial system products and facilities without difficulty.

A survey conducted in Nigeria by EFinA¹ in 2008 revealed that about 53% of adults were excluded from financial services in Nigeria. Based on this finding, the Central Bank embarked on several initiatives to achieve better financial inclusion. Consequently, financial exclusion rate reduced from 53% in 2008 to 46.3 % in 2010. This further reduced to 39.7% in 2012.

While concerted efforts have been made by the government and concerned stakeholders in the financial services industry to extend conventional banking services to as many Nigerians as possible, the same cannot be said of the extension of housing finance and mortgage services. Hence, the rate of financial exclusion is rather high in the Mortgage Sub-sector compared to other sub-sectors in the larger financial services Industry in Nigeria.

For Housing Finance and Mortgage Banking, customers are broadly categorized into three in Nigeria, the formal open market sector, the subsidized open market sector and the informal sector. The formal open market sector comprises of middle and high income earners in paid employment either with the government or in the private sector. It also includes a few high net-worth entrepreneurs. The subsidized sector is a subset of the open market comprised of workers in both the public and private sectors who contribute to and are eligible to access mortgage loans from the National Housing Fund. The formal sector constitutes less than 40% of the working populace eligible to housing; the formal open

¹ Enhancing Financial Innovation and Access (EFinA) is a private development finance organization.

market sector makes up about 15% while the subsidized open market sector constitute less than 25%.

The informal sector comprises of the segment of the populace who are not engaged in formal occupation but are largely self-employed and entrepreneurs. This sub-group comprises mainly of self-employment activities, which are categorized as the micro, small and medium-sized enterprises (MSMEs). They are referred to as informal sector because activities in this sector are difficult to measure, despite the fact that they are highly dynamic and they contribute substantially to the general growth of the economy.

Over 60% of the working population belongs to the category of the informal sector. From the website of Federal Ministry Budget and National Planning, the informal sector is reported to have great potential as it contributes more than 58% to the country's economy, therefore denying them access to mortgage has amounted to neglecting a potentially huge market.

Until now, the informal sector has been largely excluded from mortgage and formal housing finance services. Although it is believed that people in this category cannot afford a mortgage, more often than not, even when they are financially capable of taking mortgage loans, they are denied access to them because they do not have proof of the consistency of their financial capability.

In an effort to include the informal segment of the populace in Housing Finance and Mortgage Banking Services, a few strategic steps were taken in the past year. First is the development of the 'My Own Home' initiative as an outshoot of the Nigerian Housing Finance program. This Scheme is a Public-Private Partnership (PPP) initiative designed to enhance the extension of mortgage and housing micro finance to people in the informal sector as a priority as well as low and middle income earners in other category of the populace as an extension thus, to increase access to housing finance in Nigeria. The Scheme has a broad-based stakeholders and partnerships that include; the Federal Government of Nigeria, Federal Ministry of Finance, Central Bank of Nigeria, the World Bank, Federal Ministry of Power, Works & Housing,

the Federal Ministry of Justice and Mortgage Banking Association of Nigeria (MBAN).

Under the 'My Own Home' scheme, all Primary Mortgage Banks, 4 Commercial banks, and 9 micro finance banks have been selected to stimulate housing finance for low-income earners in the formal and informal sectors. The Scheme has a three-prong framework namely housing microfinance, mortgage Insurance and Guarantee as well as Mortgage Refinance.

Housing Microfinance: This component of the Scheme is designed to stimulate increased lending to low-income earners in the formal and informal sectors in Nigeria through Microfinance Banks for incremental housing construction or housing improvement. Unlike the conventional mortgage, the Scheme allows beneficiaries to use the loan for purchase of land, incremental building or renovation.

Mortgage Insurance and Guarantee: This component of the Scheme is designed to aid borrowers without sufficient down payment or no equity contribution at all to still access mortgage for home ownership.

Refinance: This component makes it possible for the Nigerian Mortgage Refinance Company (NMRC) to refinance mortgages created through the Scheme thus providing long-term refinancing of mortgages and standardizing mortgage procedures.

Apart from the 'My own Home' Scheme, mortgage practitioners have also made concrete steps to extend full-fledged mortgage to the informal sector. To enable this, the Mortgage Banking Association of Nigeria and its constituent Mortgage Banks and Mortgage Brokers members, in collaboration with the CBN through the NHFP have come up with a Uniform Mortgage Underwriting Standards for the Informal Sector. This is to ensure that global best practice is adhered to in underwriting this category of people and also to ensure that mortgages created for them meet the NMRC refinancing standards.

The Underwriting Standards clearly spell out the eligibility criteria for borrowers in the informal sector. This Underwriting standard is unique

and innovative because it employs homegrown methods to ascertain the credit worthiness, financial capacity and capacity and willingness to repay for underwritten customers. It is one the steps towards providing innovative solutions to the problems associated with access to finance in Nigeria. All stakeholders in the sub-sector are of the opinion that with the adoption of this standard, access to mortgages would increase significantly.

The efforts towards financial inclusion in the Nigerian Mortgage Banking Sub-sector does not end with these two initiatives; stakeholders are also working assiduously on exploring the potentials of non-interest banking in the subsector, this is to enhance the extension of mortgage services and housing finance to people who possibly for religious reasons are disinclined to conventional mortgage banking practices.