



# **KEY CHALLENGES IN FUNDING THE MORTGAGE PORTFOLIO IN NIGERIA**

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# Outline

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# Nigeria - Geography

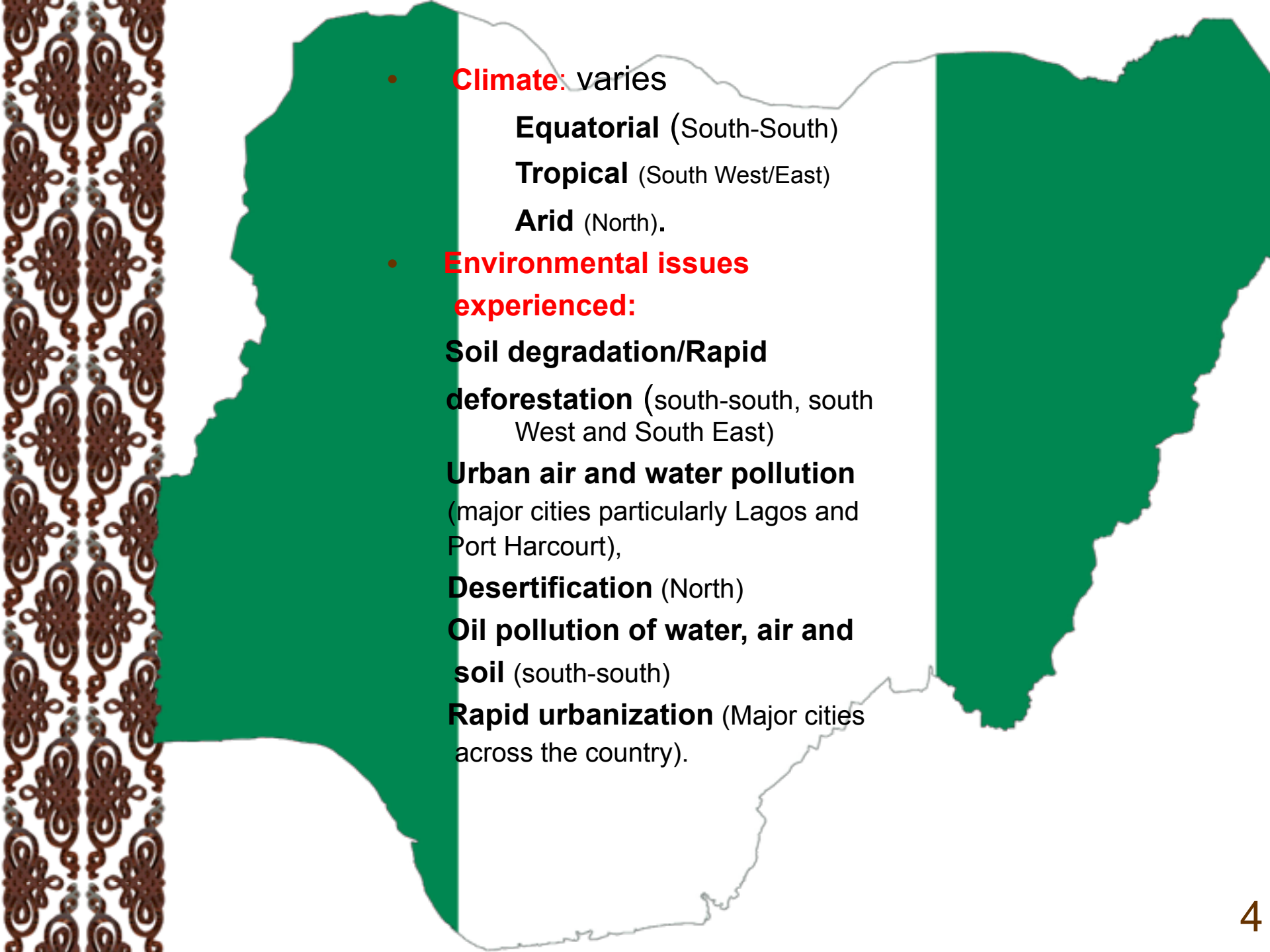
- **Location**

West Africa; bordering the Gulf of Guinea between Benin and Cameroun.

- **Area:**

Nigeria covers a total area of 923,768sq km (910,000sq km of land & 13,000sq km of water)

**In Total area**, Nigeria is the 32nd largest country in the world; it is about six times the size of Georgia and slightly more than twice the size of California.

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- **Climate:** varies
    - Equatorial** (South-South)
    - Tropical** (South West/East)
    - Arid** (North).
  - **Environmental issues experienced:**
    - Soil degradation/Rapid deforestation** (south-south, south West and South East)
    - Urban air and water pollution** (major cities particularly Lagos and Port Harcourt),
    - Desertification** (North)
    - Oil pollution of water, air and soil** (south-south)
    - Rapid urbanization** (Major cities across the country).



# Nigeria - Population

- **Estimated to be 184.6m as at Jan 1, 2016.**
- **Projected to be 189.6m by Jan 2017.**

77% of population is below 35yrs, 87% is below 45yrs,  
90% is below 50yrs.

**(United Nations Department of Economic & Social  
Affairs: Population Division, 2016).**



# Nigeria - Economy

- Nigeria is a middle income, mixed economy and emerging market. With a Nominal Gross Domestic Product (GDP) of 582.986 billion US dollars, it ranks the 21st largest economy in the world, and 20th largest economy in terms of Purchasing Power Parity (PPP).

# Nigeria – Key Indices

**\$481 bnG**  
DP

**304.5**  
Exchange  
rate

**1%**  
Mortgage %  
of GDP

**2.79**  
Population  
growth rate

**13.3**  
Unemploy-  
ment rate

**152**  
HDI  
Ranking

**0.514**  
HDI

**14%**  
Deposit  
Interest rate

**16.5%**  
Inflation rate

**16.55%**  
Lending  
Interest rate





# Nigeria – Key Indicators

**N2,300**  
Average cost  
of cement

**167**  
EoDB  
ranking

**35%**  
Credit % of  
GDP

**\$16.7<sub>k</sub>**  
Average price  
of house

**65m<sup>2</sup>**  
Average  
size of  
house

**78%**  
Population  
<\$2 per day

**39.74%**  
Gini  
Coefficient

**50.02%**  
Urban  
population

**4.02%**  
Urbanization  
rate







# Mortgage Banking/Housing Finance Sector - Overview

- **Size of Mortgage Market –**
  - N284 billion (2010)
  - N348.1 billion (2012)
  - N518.76 billion (2016 est.)

## Key players

### Regulators

- CBN - External regulator for PMBs
- MBAN – Internal/self regulator for PMBs
- SEC
- **Mortgage Lenders**
  - FMBN (through Mortgage Banks)
  - Mortgage Banks (33)
  - Commercial Banks (about 21)



# Mortgage Banking/Housing Finance Sector - Overview

## Sources of long-term Funds

- **NHF**
- **NMRC**
- **MWF (Proposed)**

# Mortgage Banking/Housing Finance Sector - Overview

**Only about 5% of the 13.7million housing units in Nigeria are currently financed with a mortgage.**

- **Affordability gap**
- **Dearth of titled properties**

**The mortgage industry generated:**

- **<100,000 transactions (1960 – 2009).**
- **Now 181,519 transactions (2010 – 2016)**

**Contribution of mortgage finance to Nigeria's Gross Domestic Product (GDP) – about 1%**



# Achievements so far

## Recapitalization of Mortgage Banks

- National PMBs: minimum paid-up capital of N5 billion (US\$31.2 million) - 10
- State PMBs: N2.5 billion (US\$15.6 million) -23

## Establishment of NMRC

## Development of Uniform underwriting standards (UUS) for the formal sector

## Improved Operational Efficiency for Mortgage Banks

- Seamless integration of the customers of Mortgage Banks into the BVN platform
- Issuance of NUBAN Numbers to facilitate online transactions for Mortgage Bank customers

# Achievements so far

- **Amendment of Pension Act to facilitate withdrawals from RSA for down payments on equity contribution to boost inclusion.**
- **Establishment of Mortgage Brokerage firms**
- **Reduction of cost of Title registration & transfer from 13% to 3% in Lagos State**
- **Primary origination being linked to money and capital markets through establishment of MWFL**
- **Collateral Replacement Indemnity (CRI) to boost inclusion for up to 95% from 80% Loan to Value (LTV).**
- **Loss of job insurance (new in our market), currently covers 3 months, to be extended to 1yr**

# Key Challenges (cont'd)

**Lack of Long term funds (NMRC Refinance solution)**

**High cost of funds/**

- ❑ Interest rates at 20%, inflation at 16%, Property value appreciation at 5% (was 50% in some areas of Lagos and Abuja five to eight years ago) cheaper to buy next year than now, cost doubles every five years with 20% mortgage interest rate.

**Few Eligible borrowers (due to high cost of funds)**

**No Foreclosure law (2 to 5 years to foreclosure)**

**High inflation rate**

**Informal Sector Exclusion**

**Lack of infrastructure (good roads & transportation). Difficult to develop new cities where land is cheaper**

**Inadequate cadastral system**



# Key Challenges

**Mortgage penetration is low because less than 5% of houses have formal title registration.**

**Lack of Affordable housing especially in cities**

**Cost of land is too high.**

**Unfavorable Investment Climate. Exchange Rate.**

**High cost of title registration/transfer. As high as 22% in some states, mostly 15% .**

**Slow bureaucratic procedures: To register/transfer Title could take from 6 months to 2 years. Has too many processes which are slow, cumbersome, unreliable, & inefficient.**

**Lack of Awareness/ Public Apathy towards mortgage financing**

# Where we hope to be

- **Unbundling of Mortgage Origination Process**
- **Further reduction in loan origination period**
- **Introduction of computerised land titling registration.**
- **Land Title Insurance**
- **Introduction of UUS for Informal Sector**
- **Enactment of Foreclosure law**
- **Wider Public awareness for the Sector**
- **Contribution of Mortgage Banking /Housing Finance Sector to GDP to grow from current 1% to at least 5% in the short run, 30% in the medium term, & about 65% in the long run.**

# Way Forward

- Gradual Reduction in Interest Rate in the economy from Current Monetary Policy Rate (MPR) of 14% p.a to a maximum of 6% p.a.
- Huge improvement in Infrastructure across the Country i.e. Roads, Power, Rail, Drainages, etc., which together contribute about 30% of the Cost of Housing Delivery in Nigeria.
- (1:3:1) Operational Bureaucracy: Reduction in Cost of Title Transfer to a maximum of 1% of Property Value; Time to a maximum of 3 days, & Procedures limited to only 1 Desk (1:3:1), following the example of Lagos State Government which recently reduced to 3% of Property Value.



# Way Forward

- **Introduction of innovative housing finance products to extend the reach of formal mortgages**
- **Re-Capitalisation of Federal Mortgage Bank of Nigeria (FMBN) to N500Billion**
- **Draft foreclosure laws are being pushed through states for adoption. CBN should assist in the area of quick passage to enhance mortgage business.**
- **Publicity/Advocacy: CBN to collaborate with MBAN on Advocacy towards support for the Sub-Sector in order to enhance Public Trust and Confidence.**

# Way Forward

- Expedited action to review Mortgage related laws
- Development of other long-term sources of funding
- Creation of cheaper sources of funds
- Robust operational guidelines to enhance profitability of Mortgage Banks
- Government to give grants/subsidies. For example LASG 30% deferred equity and proposed 40% discount for civil servants.
- Mass producing houses to get quantity discount.
- Government to subsidize construction but targeted at vulnerable and low-end of the market.

# Other Initiatives

- Longer tenured mortgages if house quality is very high; 100years generational loans to improve affordability.
- Rent to Own/Lease to Own Models/Affordable rentals.
- Mergers and Acquisitions (M&As) of lenders and maybe builders to enhance capacity and cost sharing.
- Housing Microfinance.
- Increase LTVs of up to 90% for young people if parents are willing to pledge their own properties as additional collateral.
- New types of building technology to increase speed, durability, & reduce cost.





**THANK YOU FOR  
YOUR ATTENTION**



## **Draft Bills having effects on the Mortgage Banking Sector that had been pending with the National Assembly for amendments since Year 2001**

- Land Use Act 1978
- National Housing Fund (NHF) Scheme Act 1992
- Mortgage Banks Act 1989 (Subsumed in BOFIA)
- Federal Mortgage Bank of Nigeria (FMBN) Act 1993
- The Trustees Investment Act 1962
- The Nigeria Social Insurance Trust Fund (NSITF) Act 1993
- The Insurance Act 2002
- The Investment and Securities Act 1999
- The Federal Housing Authority (FHA) Act 1990
- Securitization Bill
- Foreclosure Law Bills – Residential Mortgage Act and Residential Mortgages (Incentives) Act.