



KEY CHALLENGES IN FUNDING THE MORTGAGE PORTFOLIO IN NIGERIA

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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.



• **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 582.98 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^{bn}
GDP

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_k
Average
price of
house

65m²
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.