Occasional Paper No. 50

Mortgage Financing in Nigeria

CENTRAL BANK OF NIGERIA

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ISSN:2384-5082

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LIST OF ACRONYMS

ARM	Adjustable Rate Mortgages
CBN	Central Bank of Nigeria
DMBs	Deposit Money Banks
EDL	Estate Development Loans
FHA	Federal Housing Authority
FGSE	Federal Government-Sponsored Enterprise
FMBN	Federal Mortgage Bank of Nigeria
FMF	Federal Ministry of Finance
GDP	Gross Domestic Product
IFIs	International Financial Institutions
MBAN	Mortgage Banking Association of Nigeria
MBSs	Mortgage Backed Securities
MRC	Mortgage Refinance Company
NBS	National Bureau of Statistics
NBS	Nigerian Building Society
NNPC	Nigerian National Petroleum Corporation
NSITF	Nigerian Social Insurance Trust Fund
OFISD	Other Financial Institutions and Supervision Department
PMBs	Primary Mortgage Banks
PRA	Pension Reform Act
PFAs	Pension Fund Administrators
REDAN	Real Estate Developers Association of Nigeria
REITs	Real Estate Investment Trusts
SAs	Savings Associations
SEC	Securities and Exchange Commission
SPV	Special Purpose Vehicle
USAID	United States Aid and International Development

MORTGAGE FINANCING IN NIGERIA

ABSTRACT

This study examines various housing financing policies in Nigeria, highlight their performances with a view to identify the challenges inhibiting the optimal performance of the mortgage financing structures in Nigeria and suggest way forward. The approach adopted is a trend analysis of the various components of the policy measures and comparative analysis with other jurisdictions. The study found that low awareness about existing mortgage financing arrangements, low financing capacity of the mortgage institutions and inefficient title/legal framework among others remain the major impediments to the growth of the sector. It recommended that implementation of the revised PMB guidelines, identification of new sources of financing for mortgage institutions, streamlining of title/legal documentation framework and an active participation of the private sector (including cooperative and credit unions) would position the sector to perform optimally and contribute to the overall economy.

JEL Classification: *D4, E44, E58, G20, G21, G28, L85*

Key Words: Estate Development Loans, Federal Housing Authority, Federal Mortgage Bank of Nigeria, Mortgage Backed Securities, Primary Mortgage Banks, Real Estate Investment Trust.

1.0 INTRODUCTION

Shelter is one of the basic necessities of life. Indeed, the housing sector plays a very critical role in a country's prosperity as it directly affects not only the well-being of the citizenry but also the general performance of other sectors of the economy. Thus, provision of housing has, since the early 1970's, engaged the attention of most countries, especially the developing ones, for a number of reasons. First, it is one of the three most important basic needs of mankind. Consequently, programmes of assistance in the areas of finance, provision of infrastructure and research have been designed by governments to enhance adequate housing delivery. The focus on finance has, however, been very prominent for the reason that, housing provision requires huge capital outlay, which is often beyond the capacity of the medium-income and low-income groups.

Second, modern urbanization further exerts pressure on government to develop the housing market. Thus, it is mostly the case that the demand for housing units outweighs the supply. To address this gap, individuals, firms, and government often resort to sharing, renting or owning properties. In advanced economies, the common approach to owning a property is through a mortgage arrangement. In fact, in most cases, outright payment of cash to purchase a property raises suspicions. Although mortgage risks are well known and outlined in the literature, mortgage confers advantages ranging from living in a dream house in the early years of one's life to offering the potential for profit-making when house prices rise.

Thirdly, mortgage finance plays a pivotal role in the development of housing markets. The spill-over effect of strong housing markets in the form of job creation, especially in the construction sector, improvement in living conditions, potential development of the long-term finance market for infrastructure development, freeing up of government resources to meet other socio-economic needs and, ultimately, in improved economic growth, is well documented in the literature.

The Nigerian National Bureau of Statistics (NBS) (2011) categorized the real estate sector in Nigeria into the low-end and the high-end. The low end of the sub-sector is characterized by low-value investments, places of residential buildings, and high demand for real estate properties. Current features of the higher end of the sub-sector include high-value investments with low demand for real estate properties. The real estate and construction sector, in the last five years, has contributed an average of 1.82 per cent to growth in real Gross Domestic Product (GDP). In a bid to further improve the sector however, governments at both federal and state levels have implemented various policies through either direct measures or agencies and parastatals. However, with all the progress being made by both the government and the organized private sector to provide affordable shelter, the potentials of the Nigerian mortgage industry remains largely untapped as it is constrained by several qualitative and quantitative factors. This study therefore examines various housing financing policies in Nigeria, in other to review their performance vis-à-vis their objectives, identify the challenges that might have impeded performance and considers how the challenges facing the sector could be adequately addressed.

The paper is structured into six sections. Following the introduction is section II, which deals with the conceptual issues and literature review, Section III provides an overview of mortgage financing in Nigeria, while section IV appraises mortgage financing in Nigeria. Section V articulates various issues and challenges in the mortgage sector. Section VI concludes the paper and provides some recommendations.

2. CONCEPTUAL ISSUES AND LITERATURE REVIEW

2.1 Conceptual Issues

The term "mortgage" has been in existence since the 17th Century. It is a loan often associated with real estate. Indeed, the history of the word has been traced back to the legal interpretation by the old French to mean "dead" (mort), "contract" or "pledge" (gage). Mortgages, like other loans, have a fixed term to maturity, a date by which the loan must be fully repaid. Consequently, it was seen as the probability that the mortgagor will repay his debt but in the event of a default, the pledged property (in those days, land) was taken over or seized from him and thus considered "dead" to him (mortgagor). If the incurred debt (loan) was repaid, then the land pledged was dead to the mortgagee.

In the jurisdiction of finance and economics, it is an agreement under which an individual borrows money from a lender (usually a mortgage lending institution) to purchase a property and pledges same property such that the lender takes possession of the said property if the borrower fails to repay the money back. The online dictionary defines the word mortgage as a "temporary, conditional pledge of property to a creditor as security for performance of an obligation or repayment of a debt"., The Longman Dictionary of Contemporary English (2005) defines the term 'Mortgage' as "a legal arrangement by which someone borrows money from a bank or similar organization in order to buy a house and pay back the money over a stipulated period of time". The word 'mortgage' is simply defined in the Property and Conveyancing Law (1959) as "including any charge or lien on any property for securing money or money's worth", while the Nigerian Land Use Act (1978) defines it as encompassing a second and subsequent mortgage and equitable mortgage.

However, the various definitions of the word are often used interchangeably, depending on the context. For instance, it could mean the loan obtained from such an agreement, the deed, the lender's security for a debt, note or document effecting such agreement as explained above or the actual repayment of the funds borrowed against a property. Taking out a mortgage allows firms and individuals to purchase and own real estates without the immediate need to make an outright payment of the full value of the property from their resources.

2.1.1 Models of Mortgage Financing

Over time, different types of mortgage financing models has been identified in the literature. The common types include: bundled mortgage finance system, unbundled mortgage finance system, depository-based mortgage finance system and secondary market-based mortgage finance system.

2.1.1.1 Bundled Mortgage Finance System

Under a bundled mortgage finance system, a single actor/player performs roles in the mortgage process, acting as the loan originator, lender services provider and the risk manager, among others. As a sole investor, the portfolio lender has deposits as his major source of funding. The sole investor creates a close and long-term relationship with his clients. This gives him the opportunity to enter into transactions in other financial products.

This model of mortgage financing however is characterized by liquidity and interest rates risks, as borrowers often expect long-term funding, but depository funds are traditionally short-term. The single-entity lender in this system makes efficiency and expertise, which are valid in any credit system, very difficult to achieve.

2.1.1.2 Unbundled Mortgage Finance System

All the market players in this system play different roles in the execution of a mortgage process in contrast to the arrangements under the bundled mortgage finance system. Here, the borrower goes through a mortgage banker to source funds from investors, other depositories and the secondary market.

The key benefit of this system is the assurance of specialization. Every loan goes through the necessary due diligence of underwriting, marketing, packaging, and risk management, among others. This procedure minimizes cost and promotes market discipline. However, where many entities/players are involved, there is the tendency for bureaucratic delays, which could add to cost as well.

2.1.1.3 Depository-Based Mortgage Finance

The depository-based mortgage finance is a system where deposit money banks enter into mortgage lending. This system became popular in Nigeria after the recapitalization of the depository institutions in 2005. Banks with excess liquidity began to consider setting up mortgage desks in their branches. Others went further to diversify by adding mortgage banking to their investment portfolios.

The major challenge with depository-based mortgage finance has to do with mismatch of tenor and interest offered. Whereas depository institutions (money market) offer short-term loans, mortgage loans are traditionally long-term, with maturities of up to 30 years. In Nigeria, the depository institutions currently offer mortgage facilities at interest regimes between 14 and 28 per cent. This is relatively high when compared with what obtains in the secondary market based system.

2.1.1.4 Secondary Market Based Mortgage Finance System

The secondary market-based mortgage finance system is so far believed to be the system that best suits the long-term liquidity needs of the housing market. The market is regarded as an organized system that involves loan origination, ware-housing, securitization and sale to investors. Funds realized from sale of mortgages are ploughed back into the system to create more mortgages, thereby deepening the system and increasing the housing stock in the economy.

The secondary market system begins with the borrower, who takes a decision to access a mortgage loan and approaches a mortgage institution (primary market) to express his intention. The mortgage firm determines the loan affordability, based on the borrower's disclosures and standardized underwriting criteria. On determining the affordability of the borrower, the loan is granted.

This and other mortgages of similar characteristics are pooled together, purchased from the originators by a Special Purpose Vehicle (SPV) or issuer, warehoused and later securitized for onward sales to investors as mortgage-backed securities (MBS). The funds obtained from sales are ploughed back into the mortgages. This cash flow sustains and promotes home ownership and delivery by ensuring constant liquidity in the system. Interest and principal payable to investors are expected to be funded from mortgage loan repayments of borrowers.

The varying technicality and multiplicity of form that a mortgage transaction could take is today captured by different concepts that feature under mortgage financing and transactions (see Appendix 1-3).

2.2 Theoretical Nexus and Literature Review

2.2.1 Theories of Mortgage

There are three main mortgage theories: the Lien theory, the Title theory, and an Intermediate Theory.

2.2.1.1 Lien Theory

Lien theory infers that a mortgage resembles a lien or an encumbrance on the property, so that the mortgagee (lender) acquires only a lien on the property and the mortgagor (borrower) retains both legal and equitable titles, unless a valid foreclosure occurs. The lien theory states that, if a borrower defaults or fails to meet the terms of the mortgage, the lender may go through formal foreclosure proceedings in order to gain legal title to secure repayment of the loan.

2.2.1.2 Title Theory

Title theory surmises that a mortgage transfers legal title of the property to the mortgagee (lender), who retains it until the mortgage has been satisfied or foreclosed. In countries that follow the title theory, the title to the mortgaged property is split into legal title granted to the lender and equitable title granted to the borrower. When the borrower has met the demands of the mortgage, they are entitled to legal title as well. Until the debt is repaid, the lender retains ownership of the mortgaged property while the borrower retains possession. Since the lender has legal title to the mortgaged property, if the borrower defaults they have the right to immediate possession of the property.

2.2.1.3 Intermediate Theory

The Intermediate Theory is a hybrid of both the title and lien theories. The Intermediate theory is similar to the lien theory which applies until there is a default on the mortgage whereupon the title theory applies.

2.2.2 Review of Empirical Literature

The availability and accessibility of finance is an essential factor required to mobilize other non-financial resources towards the actualization of the goals of housing investment, Odu (1992). The supply of mortgage finance through traditional channels often raises the question of legal ownership of the mortgaged property. In this regard, proponents of the title theory suggest that mortgage transfers legal title of the property to the mortgagee (lender), who retains it, under a deed of trust, until the mortgage has been satisfied or foreclosed. In countries that follow the title theory, the title to the mortgaged property, is split into legal title granted to the lender and equitable title granted to the borrower. When the borrower has met the demands of the mortgage, they are entitled to legal title as well. Until the mortgage debt is repaid, the lender retains ownership of the mortgaged property while the borrower retains possession. Foreclosure practices in such jurisdictions are considered non-judicial since the mortgagee has the legal title to the mortgaged property and if the borrower defaults, the lender has the right to immediate possession of the property. For jurisdictions that follow the lien theory, the legal title to the mortgaged property remains with the mortgagor (borrower) except in the case where the lender resorts to a judicial foreclosure authorizing the sale of the property to recover a debt. A hybrid of lien and title theory also applies in some jurisdictions whereby the lien theory is applicable until such a time when there is a default on the mortgage and the title theory becomes applicable.

Literature emphasizes the importance of a conducive macroeconomic, legal and regulatory environment for the development of housing finance markets. In this regard, Warnock and Warnock (2008) investigate the effects of markets on the provision of housing finance across a sample of countries. They found evidence that efficient legal systems, existence of credit information systems, stable and conducive macroeconomic environment had a positive effect on housing finance systems with varying effects across countries. They, however, found no supportive evidence that the presence of a large government securities market was critical in developing the housing finance systems. Tomlinson (2007) further corroborates that adverse macroeconomic, legal, institutional and regulatory environment impact on the provision of long-term finance for housing in Sub-Saharan Africa.

Notwithstanding the importance of well-functioning institutions to the growth of housing finance markets, mortgage defaults remain a source of concern. Proponents of the lien theory argue that mortgages are encumbrances on the property such that the mortgagee (lender) acquires only a lien on the property and the mortgagor (borrower) retains both legal and equitable titles, unless a valid foreclosure occurs. Therefore, if a borrower defaults or fails to meet the terms of the mortgage, the lender may go through formal foreclosure proceedings in order to gain legal title to secure repayment of the loan.

Whitley et al (2004) examining factors that lead to mortgage defaults and arrears used a time series approach to model two of the key components of aggregate UK household arrears for those on mortgages and credit cards. They found that mortgages were the main components of secured borrowing by households, while credit cards were a key element in unsecured borrowing. They found evidence that both income and interest repayments (and therefore income gearing) were important factors in explaining both forms of arrears, while unemployment played an additional role in mortgage arrears.

Miyoshi (2008), on his own part, looked at mortgage default and personal bankruptcy with empirical findings, which disentangled the two mainstream theories: the willingness-to-pay theory and the ability-to-pay theory. The estimation results of a model of simultaneous choices between mortgage and non-mortgage delinquency suggested that credit constraints and borrowers' insolvency were the bridge between the two conflicting theories. In addition, using a model of bankruptcy decisions, he showed that credit-constrained and seriously financially-distressed households acted more "ruthlessly", based on their financial benefit from bankruptcy filings.

Gathergood (2009), examining a similar research problem, observed the prevalence of mortgage arrears in the U.K, using the British Household Panel Survey (BHPS). He noted that the majority of reported problems occurred in the first few years after purchase. Episodes of unemployment, long-term sickness or relationship breakdown all predicted repayment difficulties, and measures of leverage and income gearing at the point of origination. Using proxy measures for unemployment risk, ill-health risk and separation risk at the time of purchase, constructed from a variety of instruments, repayment difficulties were shown to be strongly correlated with ex-ante repayment risk. This result raised questions about the efficiency of the mortgage lending process and the possibility that a significant proportion of mortgage arrears and defaults could be prevented by improved screening for repayment risk at the time of application. Nevertheless, White (2010) suggests that homeowners always make strategic efforts not to default largely to avoid the guilt of foreclosure and the consequences of foreclosure.

Agbola(1998) and Diogu (2004) argued that there is an opportunity cost to housing investment and that returns to housing investments must be proportionate or higher than other sectoral investments for the housing sector to attract significant inflow of investible funds. Keys et al (2010) tracked the evolution of financing of residential real estate through the housing boom in the early to mid-2000s and the resolution of distress during the bust in the late 2000s. They argued that this form of financial intermediation had a direct impact on lending standards and the potential for renegotiating residential loans. In addition, they provided new evidence on agency conflicts in the securitization process, and detailed broader challenges to cost-effective mortgage renegotiation.

Governments, sometimes intervene either through direct or indirect subsidies to channel mortgage lending to the household group. In September 2012, the Bank of England announced a significant improvement in the availability of secured credit to households by banks and building societies as well as increased mortgage and rental property demand, which was largely attributed to the government's £80 billion funding for lending scheme introduced to "unclog credit flow to household and businesses" and revitalize the housing market in the aftermath of the 2007 global financial crisis. There is however concern that the intervention could lead to a housing price bubble. In certain instances, which arise mainly due to inadequacy or inability of public sector mortgage banks and housing institutions to deliver on housing policy initiatives, government further seek to develop market-oriented policies through encouraging private sector involvement such as licensing of primary mortgage institutions, development of mortgage finance market, strengthening of existing mortgage support infrastructures and embarking on reform measures to boost housing finance and provision. In the United States, there are signs of a recovery in the housing sector mainly due to large volume of refinancing activities, low interest rate environment, supportive government programs and continued recovery of the US economy in the post-2007 global financial crisis world, Sharma (2012).

Berrospide et al (2011) examined the sensitivity of banks' home mortgage lending behavior across geographic dimensions during the 2007-2009 US housing market collapse. Applying cross-section and pooled regressions, it was observed that due to the financial shocks associated with the 2007 global financial crisis, banks' capital were affected which led banks to reduce mortgage lending in both high and lower delinquency markets. Beck et al

(2010) employed household survey and panel approach to examine the determinants of access to mortgage finance in Central and Eastern Europe as well as consequences of household mortgage indebtedness in the event of a financial crisis. They found evidence that mortgage holders were less financially vulnerable during periods of high income growth in the countries examined. In addition, accessibility of mortgage finance was not based on expected income in EU countries. However, they advised for caution in the interpretation of findings since results were obtained for periods prior to the 2007 global financial crisis.

While acknowledging the role of housing finance markets, Sassen (2008) cautions on the potential consequences of securitization of mortgages in the wholesale mortgage finance markets. He opined that financial innovations in the form of mortgage-backed securities have shifted the focus of mortgages from the creditworthiness of potential homeowners to marketing of financial instrument. This he also called "financializing of mortgages" which signals that trading in mortgage financial instruments becomes the driving source of profit, rather than the houses itself which not only impedes the objective of housing provision, but could exacerbate the risk of a financial crisis due to network and spillover effects. The 2007 global financial crisis raised questions on the future of mortgage-finance market which further led Zandi and Deritis (2011) to suggest a hybrid mortgage finance system that preserves the benefits of government-led and private-led mortgage finance markets with mortgage loans originating from private sector and government standardizing market operation and acting as the regulator.

In Nigeria, Oduwaye et al, (2008) using survey analysis and secondary data highlighted that the National Housing Fund policy, land use act, structure of primary mortgage institutions, high interest rates were some constraints to mortgage financing in Nigeria. Ogedengbe and Adesopo (2003) examined the problems of financing real estate development in Nigeria through the administration of questionnaires and a simple descriptive analysis. The study revealed that high interest rates and several other requirements for loan application bedeviled the financing of real properties in Nigeria. The study therefore recommended, among others, that the Nigerian Government should endeavour to solve economic problems, such as inflation, in order to minimize the problems that plague the financing of real estate development.

Mailafia (2007) commented that the poor performance of the Nigerian housing finance system could be attributed to low accessibility, underdevelopment of the land tenure system and the inability of financial systems to provide low cost finance. Adedokun et al (2011) evaluated the performance of the National Housing Fund Scheme in terms of housing delivery in Nigeria. The study adopted secondary data and employed the use of percentiles and t-test as well as Pearson Product Moment of Correlation for the purpose of analysis. The result indicated that the Primary Mortgage Institutions (PMIs) were not adequate in number and that there was a wide difference between the amounts the mortgagors actually applied for and the amounts approved.

Ijaiya et al (2012) carried out a study on “Microfinance and Mortgage Financing in Nigeria: a Rural Experience”. The study used a primary survey approach to obtain data and employed multiple regression analysis. The results showed that the credit facility provided by the informal microfinance in the study area was used for housing purposes by the respondents. Based on this finding, the study recommended the establishment of a regulatory body that would ensure quality of houses constructed, remove the risks involved in the purchase of land and ensure security of tenure. Extant literature identifies building blocks for an efficient housing finance system. It is in this regard that this study examines various housing financing system and policies in Nigeria, reviews the performance vis-à-vis their objectives, identify the challenges that might have impeded performance and considers how the challenges facing the sector could be adequately addressed.

3.0 INSTITUTIONAL ARRANGEMENTS FOR MORTGAGE FINANCING IN NIGERIA

3.1 Evolution of Mortgage Financing in Nigeria

The first attempt at institutionalising mortgage financing in Nigeria was the establishment of the Nigerian Building Society (NBS)[1] in 1956. Thereafter, regional governments set up housing corporations, savings and loans banks and cooperative banks to provide funds in the form of mortgage credit for housing development. Following the Indigenization Act (1972) which aimed, amongst others, at promoting and transferring the ownership and control of foreign enterprises to Nigerians, the Nigerian Building Society, in 1977, was renamed and metamorphosed into the Federal Mortgage Bank of Nigeria, (FMBN) to reflect the 100 per cent ownership of the Federal Government of Nigeria. Within two years of the establishment of the FMBN, its capital base was increased from ₦20 million when it was bought over by government in 1977 to ₦150 million in 1979, reflecting an increase of over 600 per cent. The current equity base of the FMBN is about ₦5 billion, with only 50 per cent of it paid-up. Equity in the bank is split between the Federal Ministry of Finance (FMF) and the Central Bank of Nigeria, (CBN). In 1994, the FMBN was granted the status of the premier and apex mortgage institution in Nigeria. The mandate of the FMBN includes:

- *"Encouraging the emergence and promoting the growth of viable primary mortgage institutions to service the need of housing delivery in all parts of Nigeria;*
- *Mobilizing both domestic and offshore funds into the housing sector;*
- *Linking the capital market with the housing industry and establishing and operating a viable secondary mortgage market to support the primary mortgage market; and*
- *Collecting and administering the National Housing Fund (NHF) in accordance with the provisions of the NHF Act".*

As part of the measures to promote a private sector driven housing programme, the National Housing Policy of 1991 was designed with the

[1] In 1956, the NBS was a joint venture of the Commonwealth Development Corporation, the Federal and Eastern regional Governments of Nigeria with an initial capitalization of ₦ 2.25million

objective of encouraging private sector participation in the provision ofaffordable housing for Nigerian citizens. The policy enabled the establishment of the Federal Housing Authority, (FHA), as well the NHF, which served as the financial component of the policy. The FHA was required to implement government housing programmes from government allocated funds, provide low income houses in the Country and engage in real estate development on a commercial and profitable basis. However, the failure to significantly achieve the objectives of the 1991 National Housing Policy led to a redesign and the formulation of the Federal Government's 2002/2006 National Policy on Housing and Urban Development. With the new Policy, the FMBN was restructured into a Federal Government-Sponsored Enterprise (FGSE) with more focus on secondary mortgage and capital market functions. As an FGSE, the FMBN is expected to function as a government institution operating under the tenets of profit-making and efficiency. In order to further meet its mandate, the FMBN has expanded its functions from social housing on-lending under the NHF to include commercial on-lending for housing, commercial mortgage refinancing, mortgage purchasing/warehousing and mortgage-backed securitization. Under the new operational framework, it finances mortgages created by Primary Mortgage Banks (PMBs)[2] under the National Housing Fund Scheme and also gives Estate Development Loans (EDL) to real estate developers.

3.2 The Structure of Mortgage Finance Market in Nigeria

As stated earlier, the Nigerian mortgage banking industry came into existence in 1956 with the establishment of the Nigerian Building Society, now known as the Federal Mortgage Bank of Nigeria (FMBN). Until the Mortgage Institutions Act No. 53 of 1989 which provided the regulatory framework for the establishment of Primary Mortgage Institutions (PMIs) by private entrepreneurs was promulgated, FMBN was the only primary institution specialized in retail mortgage banking in Nigeria, Agusto & Co Research (2011). The major market players in the industry comprised the primary mortgage institutions (building societies), commercial banks, Federal Mortgage Bank of Nigeria, together with private developers, and cooperatives sponsored by corporate entities. In Nigeria presently, there is no secondary mortgage market. The mortgage finance market in Nigeria is mainly two-tiered and largely dominated by the FMBN and PMBs, which act as intermediaries between fund savers and users.

[2] Prior to 2011, these were known as primary mortgage institutions.

Government's influence is significant through the FMBN, with the ownership structure of 50.0, 30.0 and 20.0 per cent by the FGN, CBN and the Nigerian Social Insurance Trust Fund (NSITF) respectively. However, there are continuous efforts and initiatives to boost the supply of mortgage loans and credit from private lenders. In advanced economies, the common approach to owning a property is through a mortgage. Indeed, in most cases an outright payment of cash to purchase a property raises suspicion. In Nigeria, the mortgage credit culture is almost non-existent and the norm is a 'cash and carry" system because it allows home owners to build incrementally as funds become available.

Table 1: Analysis of Deposits and Funds from 2005 to September, 2010

Funds Category	2005 (N'000)	%	2006 (N'000)	%	2007 (N'000)	%	2008 (N'000)	%	2009 (N'000)	%	2010 (N'000)	%
NHF Contributions	21,116,643	90%	25,844,705	77%	34,518,955	82%	44,580,684	85%	57,006'7 23	90%	66,286,005	92%
Long Term Deposit:												
PMI Share Capital Deposits	70,758	0%	73,135	0%	75,512	0%	77,690	0%	80,408	0%	82,242	0%
PMI Statutory Cash Reserve	83,201	0%	89,857	0%	97,037	0%	104,162	0%	112,537	0%	117,716	0%
PMI Legal Retention Deposit	57,331	0%	57,331	0%	57,331	0%	57,331	0%	57,331	0%	57,331	0%
Sub-Total	**211,290**	**1%**	**220,323**	**1%**	**229,880**	**1%**	**239,183**	**0%**	**250,276**	**1%**	**257,289**	**0.5%**
Long Term Loans:												
World Bank	1,482,636	6%	1,587,609	5%	1,699,973	4%	1,819,505	3%	0%	0%	0%	0%
Federal Ministry of Works and Housing	22,763	0%	22,763	0%	22,763	0%	22,763	0%	22,763	0%	22,763	0%
FGN Capital Loan	750,000	3%	750,000	2%	750,000	2%	750,000	1%	750,000	1%	750,000	1%
DMO Loan	0	0%	5,058,065	15%	5,058,065	11%	5,058,065	11	5,000,00 0	8%	5,000,000	6.5%
Sub-Total	**2,255,399**	**9%**	**7,418,437**	**22%**	**7,530,801**	**17%**	**7,650,333**	**15%**	**5,772,76 3**	**9%**	**5,772,763**	**7.5%**
Total	**23,583,332**	**100%**	**33,483,465**	**100%**	**42,279,636**	**100%**	**52,470,200**	**100 %**	**63,029,7 62**	**100%**	**72,316,057**	**100%**

Source: Central Bank of Nigeria Examination Report 2010

Where mortgage loans are created, the primary sources of funding are deposits, other liabilities and NHF savings. Analysis of the FMBN's sources of funds indicated that funds generated through NHF constituted the major source of funding as it generated about 92 per cent of the total funding in 2010, while long term loans and long term deposits accounted for 7.5 and 0.5 per cent, respectively (table 1).

In addition to funds sourced through the NHF, the FMBN also raises funds through the capital market by issuing/floating of mortgage debt securities, sometimes backed by 100 per cent Federal Government guarantee. These funds often serve two purposes: on-lending on a wholesale basis at market rates and refinancing. In 2007, the FMBN received approval to issue an ₦100 billion mortgage-backed bond. Bond series 1 was issued to assist civil servants to purchase houses during the implementation of the monetization policy of the Federal Government of Nigeria and was redeemed on May 25, 2012. Series 2 of the FMBN residential-backed mortgage security was issued and fully subscribed on April 4, 2012, with a maturity of 5 years.

Lending conditions, mortgage products, mortgage instruments and mortgage providers are similar across the Country and the choice with regard to interest rates, term and repayment options are quite limited. Other traditional and informal sources and methods of housing finance adopted in different parts of Nigeria are the "Esusu", "Ajo", "Aaro" and "Owe" whereby members provide in-kind contribution through labour for their members, age grade associations, village development associations, and town unions. Some of these traditional methods are fading away with the emergence of formal methods.

The government-initiated mortgage finance arrangements, which are often mandatory, are implemented through government budgetary allocation, and/or financial transfers. A typical example is the NHF. The FMBN was initially financed through budgetary allocation that dwindled from 3.5 per cent of the annual budget in 1970 to 1.7 per cent in 1990 (FSS 2020). The private sector led approach is driven by banks, other financial lending institutions, and international financial institutions whose mortgage financing transactions are voluntary in nature. There also exist variants of public-private partnership and alliances in the provision of mortgage finance. Key players in the Nigerian mortgage finance sector include: the regulators, such as CBN, Securities and Exchange Commission (SEC); the Federal Ministry of Lands, Housing and Urban Development; the financial institutions; and the developers.

3.2.1 Government-Initiated Financing Scheme

3.2.1.1 The National Housing Fund of the FMBN:- The NHF, established by a Federal Government Act (1992), is a pool of long-term funds mobilized from statutory deductions and contributions of self-employed and organized private and public service workers which are then on-lent at low and concessionary interest rates to its contributors. It is a closed savings scheme which is managed by the FMBN. According to the NHF Act, the NSITF and the insurance companies are mandated to invest a minimum of 20 per cent of their non–life funds and 40 per cent of their life funds in real estate development, of which not less than 50 per cent must be channeled through FMBN, at an interest rate not exceeding 4 per cent. These provisions have since been relaxed to allow the pension fund administrators and insurance companies to invest pension funds and huge resources in housing development. In addition, all tiers of government are required to make direct budgetary allocations of not less than 2.5 per cent of their revenue to the national housing scheme.

Nigerian workers, both in the public and private sectors who earn a minimum of ₦3,000.00 per annum are mandated by the NHF Act to contribute to the fund. As at February 2011, the number of contributors to the NHF stood at 3,573,667 cutting across both public and private institutions. This is in contrast to the expected 50 million contributors, (Kumo as cited in Uroko (2012)). Each member of the Fund, either by themselves or via their employers, is required to remit 2.5 per cent of their monthly basic salary to the Fund managers. Thus, contributions vary as the contributor's basic salary changes. Currently, the maximum loan limit for a contributory member is ₦15.0 million (US$96,308) at an interest rate of 6 per cent per annum, payable over a maximum loan life of 30 years and subject to the applicant's current age. The purpose and use of the loan are restricted to constructing, renovation, purchase or expansion of houses.

The Fund does not permit direct individual access from the FMBN, but rather through a licensed and accredited PMB. In order to access the mortgage loan, members are required to provide an equity contribution of the value of the affected property, depending on the amount of loan applied for, and provide certain documentations. These documentations include, approved building plan, property valuation report, evidence of steady income flow, evidence of land ownership, tax clearance certificate and audited accounts, in the case of a firm. Eligibility for the loan is hinged on being a contributory member for a minimum of six (6) consecutive months prior to the loan request. The FMBN also partners with real estate developers and institutional investors to achieve its mandate of housing delivery for Nigerians. Within this framework, the Bank provides wholesale mortgage lending (often referred to as Estate Development Loan, (EDL)) to housing estate developers to construct houses for subsequent sale to contributors to the Housing Trust Fund. Loan terms for real estate developers include an interest rate of 10 per cent over a loan life of 24 months, while the bank also finances infrastructural facilities up to 70 per cent for private developers only. Pre-conditions to qualify for the EDL include membership of the Real Estate Developers Association of Nigeria, approved building and layout plan by the relevant body/authority among others. However, the programme is bedeviled by slow and inefficient application process and non-performing loans by the developers which accumulated to the tune of ₦11.2 billion since 2009 and out of which ₦5.7 billion was reported to have been recovered at end-May 2013. It is hoped that with the implementation of the internal land registry, which allows developers to use their global Certificates of Occupancy as security, and register their global titles with the FMBN, it will result in faster processing time.

3.2.1.2 CBN Credit Policy: The Central Bank of Nigeria has been at the forefront of ensuring that banks perform their financial intermediation role adequately. Prior to the liberalization of the financial sector, under the auspices of the Structural Adjustment Programme, in the early 1990s, the Central Bank of Nigeria had directed banks to allocate a stipulated minimum proportion of their total credit to the housing and construction sector of the Nigerian economy. For instance, in 1979 and 1980, banks were required to channel 5 per cent of their aggregate loans and advances to the housing and construction sector. By 1982, the stipulated minimum credit allocation to the sector was raised to 13 per cent. Following the liberalization of the financial sector and the removal of direct controls in 1993, the favoured status accorded to the housing and construction sector was discontinued. As part of its developmental role, the CBN is in the process of developing an infrastructure finance policy that seeks to attract private finance from multilateral agencies and banks for infrastructure development, including housing.

3.2.2 Private Sector-led Mortgage Finance Schemes

In line with the practices in some jurisdictions, the private sector in Nigeria is encouraged to engage in the provision of low-cost housing and mortgage financing through the mobilization of savings and deposits from the public. Typical examples of private institutions that are engaged in mortgage financing are commercial banks, primary mortgage banks, non-governmental organizations and cooperative societies. In most cases, the performance of these institutions depends on their management competence. Figures obtained from the survey conducted by the CBN in 2012, covering the period 2006 to 2011, showed that a number of banks operate mortgage windows across the Country. The total number of new mortgage loans by the deposit money banks increased from 2006 to 2009 but later declined in 2010 and 2011 (Table 2).

3.2.2.1 Deposit Money Banks:- Deposit money banks are required to accept both retail and large term deposits as well as carry out lending functions with different maturities in order to cater for the needs of the different sectors of the economy. By virtue of the nature of their operations, whereby deposits are repayable on demand, banks indicate a preference for short-term transactions. Not many banks provide mortgage products and, where they do, it is to a limited number of clients. This is often attributed to the unfavourable land laws and lack of long-term funds to facilitate the provision of mortgage products. Indeed, over time, banks' participation in mortgage finance activities has largely been in response to the CBN guidelines and was predominant during the pre-liberalization era. As a percentage of total private sector credit, sectoral credit and loans by deposit money banks to the real estate and construction sector between 2006 and 2010, stood at an average of 7.1 per cent, but declined to 6.2 per cent at end- December 2011.

According to a 2008 survey, there are only about four (4) out of the existing Nigerian commercial banks (a meager 1.7 percent of Nigerian banking institutions) involved in mortgage-related transactions. Nevertheless, it has been observed that with the on-going efforts to deepen the industry, some banks have created mortgage related subsidiaries, such as Union Homes and UBA homes, among others, that compete directly with the PMBs in the provision of real estate services to interested members of the public. Some other banks have entered into partnership with international organizations, such as the United States Aid and International Development (USAID) for the provision of mortgage facilities to economically engaged Nigerians.

Table 2: Deposit Money Bank and Primary Mortgage Bank Loan Assets (₦ '000)

Year	2006	2007	2008	2009	2010	2011
Deposit Money Banks	26,074,174.7	69,941,775.7	114,013,181.4	140,707,045.5	120,154,823.0	111,913,618.3
Share in Total	25.6%	21.7%	38.8%	39.0%	31.2%	29.7%
Primary Mortgage Banks	75,699,023.7	252,185,112.5	179,469,241.9	219,912,481.4	265,550,394.0	265,234,124.8
Share in Total	74.4%	78.3%	61.2%	61.0%	68.8%	70.3%
Total	101,773,198.3	322,126,888.3	293,482,423.3	360,619,526.9	385,705,217.0	377,147,743.1

Source: CBN-Survey Result of Mortgage Institutions 2011

3.2.2.2 Primary Mortgage Banks:- The Mortgage Institutions Decree No. 53 of 1989 provided the regulatory framework for the establishment of primary mortgage institutions to enhance private sector participation in housing delivery. These institutions were to act as second-tier housing finance institutions, intermediate between fund savers and users, provide loanable funds to individuals and corporate clients through the sourcing and mobilization of savings and long-term funds from the FMBN at a concessionary rate of 4 per cent per annum, which were on-lent as mortgage to interested persons at a premium. Hitherto, the FMBN was saddled with the responsibility for playing a dual role as a regulator of mortgage banks and an operator in the mortgage market. However, with the establishment of CBN's Other Financial Institutions and Supervision Department, (OFISD), this role has been delinked.

The Central Bank of Nigeria licenses and supervises the activities of the PMBs. Through operational and prudential guidelines for the mortgage banks, the CBN sets the stage for the promotion of the secondary mortgage market and the evolution of mortgage refinance companies within the mortgage sub-sector. Other institutional arrangements include the Mortgage Banking Association of Nigeria (MBAN) which is an organizational body of all duly licensed PMBs. Also, the Real Estate Developers Association of Nigeria (REDAN) was formed to complement and facilitate the provision of real estate properties at the lowest available cost.

3.2.2.3. Capital Market: The Nigerian capital market provides a platform for mobilizing long-term funds for real estate investments. Some companies engaged in property management, building construction, non-building/heavy construction, real estate development, site preparation services and other construction services are currently listed on the Exchange. The Securities and Exchange Commission (SEC) further creates investment opportunities to enhance the flow of cheap, long-term funding to the real estate sector. Such investment vehicles include real estate trusts, mortgage bonds and share purchases in property and construction firms listed on the Exchange. However, market capitalization of the real estate and construction sub-sector still accounts for an infinitesimal share of the total market capitalization. The Investment and Securities Act (2007) confers regulatory powers on SEC over investment trusts established either as real estate investment companies or as Real Estate Investment Trusts (REITs). These REITS are collective investment schemes, which directly invest by acquisition, holding or managing income generating real estate and associated assets, using pooled funds from subscriptions of investors/unit holders. In 2007, SEC released guidelines for the registration and issuance requirements for Real Estate Investment and Trusts Scheme, (REITs) in Nigeria. Some of the REITs are the Skye Shelter Fund (₦2 billion) and the Union Homes Hybrid REIT (₦50 billion) launched in 2007 and 2008, respectively. However, the public offer coincided with the global financial crisis, which saw most stock prices crashing and thus it was undersubscribed.

3.2.2.4 Pension Funds: Pension funds are sources of long-term finance for capital investments, as they have access to longer-term funds through contributions by employers and employees towards retirement. The Pension Reform Act, (PRA), 2004, in Section 73, permits the Pension Fund Administrators (PFAs) to engage in real estate investment. At end-December 2010, Pension funds' investment in the real estate sector was ₦170.52 billion (US$1.1billion), representing 8.4 per cent of pension fund total assets (Table 3).

Table 3: Summary of Pension Assets under Management

S/N	Asset Class	2008		2009		2010	
		Amount (₦'Billion)	*%*	*Amount (₦'Billion)*	*%*	*Amount (₦'Billion)*	*%*
1	Local Ordinary shares	220.54	20.07	220.71	14.43	358.03	17.64
2	Foreign Ordinary shares	2.23	0.20	2.80	0.18	24.10	1.19
3	FGN Securities	350.67	31.91	498.88	32.61	829.20	40.85
4	State Govt. Securities	0.16	0.01	33.71	2.20	69.60	3.43
5	Corporate Debt Securities	15.13	1.38	31.18	2.04	50.73	2.50
6	Local Money Market Securities	332.44	30.25	542.22	35.45	489.25	24.10
7	Foreign Money Market Securities	17.25	1.57	17.72	1.16	7.36	0.36
8	Open/Close End Funds	9.03	0.82	5.74	0.38	8.61	0.42
9	**Real Estate Properties**	**125.5**	**11.42**	**142.96**	**9.35**	**170.52**	**8.40**
10	Unquoted securities	6.86	0.62	6.18	0.40	8.18	0.40
11	Cash and Other Assets	19.20	1.75	27.53	1.80	14.19	0.70
Total Pension Fund Assets		**1,099.01**	**100**	**1,529.63**	**100**	**2,029.01**	**100**

Source: 2010 Annual Report and Statement of Accounts of National Pension Commission

3.2.2.5 International Financial Institutions (IFIs):-IFIs, such as the World Bank and International Finance Corporation, are also engaged as developmental partners in the provision of funding for targeted areas of the economy. Such activities are in the form of direct foreign investment or financing by an international finance institution. In India, for example, the IFC provides loans under the auspices of its housing development finance corporation. In Nigeria, the World Bank supports the quest for housing delivery, through the organized informal sector, such as the Real Estate Development Association of Nigeria (REDAN), to provide technical assistance and capacity building, carry out empirical research studies, and support the conduct of surveys of the real estate sector. Also, foreign development banks, such as the Netherlands Development Bank, have provided a US$10 million convertible debt facility in local currency to Abbey Building Society Plc, a mortgage institution in Nigeria. The convertible debt is expected to support co-operative housing development, with construction loans available for small developers as well as mortgage finance for co-operative members. Other forms of multilateral financing such as Build, Operate and Transfer (BOT) schemes also exist.

3.2.2.6 Other Private Sector Participants: Private sector participation in mortgage financing also includes cooperative societies and NGOs which pool individual members' resources together from which soft loans and credits are advanced to their members and low income earners for predetermined purposes as stipulated by the societies' guidelines. Some organizations also have cooperative societies which provide economies of scale benefits to their members by collectively, as a corporate body, acquiring plots of land at highly subsided prices for their members to build and own houses following a predetermined prototype. Some examples of such cooperatives are the CBN Staff Multi-purpose Cooperative Society Ltd, and the NNPC Cooperative Society.

The FMBN has also introduced an informal sector co-operative housing scheme to cater for informal sector participants, such as market traders, motor-bicycle riders, and mechanics using the co-operative societies which they belong to. The objective is to accommodate more Nigerians on the NHF Scheme, irrespective of their economic status. The modalities of the scheme allow a minimum monthly contribution of ₦450 ($2.85) as requirement to obtain a loan. Individual borrowers are also required to put a 15 per cent down payment on new property and obtain a loan with a 6 per cent interest rate. Some private firms have also begun engaging government at state levels, such as Niger and Bauchi, towards setting up mass housing development projects.

3.3 Recent Reforms in the Nigerian Mortgage Sector

In November 2011, the CBN released new guidelines for the mortgage sector. The key objectives of the guidelines were: to refocus the intermediation role of PMBs; address the housing needs in Nigeria; strengthen the PMBs through adequate capitalization; encourage more financing/investment in residential mortgages; promote the use of mortgage insurance; entrench risk management; develop the secondary mortgage market; standardize the process of mortgage underwriting; and encourage capacity building and professional development. The revised guidelines require mortgage banks to shore-up their shareholders funds, by April 30, 2013, and categorize mortgage banks into national and state mortgage banks. The minimum paid-up capital requirement for national PMBs was set at ₦5 billion and they are permitted to operate in any or all parts of the Federation, while the state PMBs is ₦ 2.5 billion and they are restricted to only one state. State governments' are allowed to own 100 per cent equity shareholding in national or state PMBs.

The objective for permitting the establishment of state PMBs is to encourage the spread of mortgage banks across the six geo-political zones and further promote the policy of financial inclusion, while national PMBs will provide operators with options to remain in business at different authorization levels. The new guidelines (Table 4) clearly streamline the activities of PMBs to the provision of mortgage finance and exclude activities, such as the provision of estate management services and risky activities, such as use of depositors' funds for speculative real estate investments. As at December 2011, the consolidated balance sheet of licensed PMBs was ₦357.1 billion and aggregate loans and advances by mortgage banks were ₦126.6 billion, reflecting a mortgage to total assets ratio of 37.5 per cent. This level of mortgage to total assets ratio was 5.5 percentage points above the stipulated minimum target of 30 per cent, but fell short of the revised minimum requirement of 50 percent by 14.6 percentage points.

Table 4: Key Features of Regulatory Guidelines for PMBs in Nigeria

S/N	2003 Guidelines	2011 Guidelines
1	Capital Requirement: ₦ 100million	Capital requirement National PMBs: ₦ 5 billion State PMBs: ₦ 2.5 billion
2	Permissible Activities: a. Granting of loans or advances for the purchase or building, improvement or extension of a dwelling/commercial house. b. Acceptance of savings and deposits c. management of pension funds/ schemes d. performing estate management duties e. offering of project consultancy services for estate development f. estate development through loan syndication	Permissible Activities: a. mortgage finance b. real estate construction finance c. acceptance of savings and time\term deposits, d. acceptance of mortgage-focused demand deposits Restriction on registration/incorporation of a proposed mortgage bank with the corporate affairs commission prior to receiving an Approval-In-Principle from the CBN.
3	Mortgage assets to total assets ratio shall be a minimum of 30 per cent	Mortgage assets to total assets ratio shall be a minimum of 50 per cent and minimum of 75 per cent of total mortgage assets shall be invested in residential mortgages.
4	Sources of Funds: Equity paid-up share capital and reserves, Debenture/other loans, funds from NHF, Deposits.	Sources of funds: Equity paid-up share capital and reserves, Debenture/other loans, NHF on-lending loans, Savings, time and mortgage focused demand deposits.

Source: Central Bank of Nigeria (2003); (2011)

4.0 APPRAISAL OF MORTGAGE FINANCING IN NIGERIA

This section of the paper reviews the housing finance system in Nigeria to determine the extent to which various government policies have achieved their set targets with regards to the provision of adequate, appropriate and affordable housing through mortgage financing. Specifically, the section will provide an insight into the state of housing in Nigeria and undertake an in-depth assessment of mortgage financing and progress made so far in the various policies and financing models.

4.1 State of Housing in Nigeria – The Housing Deficit

With a population estimated at 167 million as at October 2011, a total area mass of 923,769 square kilometers and situated in the West Africa sub-region of sub-Saharan Africa, Nigeria remains the most populated nation in Africa. It is one of the most rapidly urbanising countries in Africa and over 48 per cent of the population in Nigeria lives in the urban areas, covering less than 10 per cent of the habitable land areas. With an estimated annual national population growth rate of just over 2 per cent and an annual urban population growth rate of about 4 per cent, Nigeria has a population that is becoming more and more skewed to the urban areas, towns and cities. The high growth rate of the urban population arises from both a higher birth rate and more importantly the increasing rural– urban migration. More and more people move away from the rural areas, abandoning their homes and occupations (mostly primitive agriculture, traditional food processing, intra-village trading etc.) for the supposedly better infrastructure and better job opportunities of the cities.

This trend in population growth, coupled with expanding economic activity and rising rural-urban migration has put much pressure on the existing housing infrastructure causing pervasive housing crisis, particularly in the urban cities and other highly habitable areas. This has increased demand for housing over the last two decades resulting in overcrowding and increased number of slum communities. As more and more Nigerians migrate to towns and cities their homes, the resulting social, economic, environmental and political challenges need to be urgently addressed (Raji, 2008). On the supply side, efforts to provide housing either through private investors or government initiatives have not yielded the right outcomes owing to a combination of several impeding factors, including low capacity of buyers, inadequate political will, and high cost of building material, among others.

Modernization, characterised by a rapid growth of the population, can exert pressure on the demand for housing if not adequately addressed by a corresponding increase in the supply of housing. The housing imbalances in Nigeria has widened in the last decade. At 7 million in 1991, the Nigeria housing deficit has since increased to 12 million in 2007 and 14 million in 2010. Latest estimates of the state of housing in Nigeria put the total housing deficit as at end of 2011 at 16 million units, requiring investments of about ₦56 trillion to narrow the deficit. The implications of this very high housing deficit is that tenants in rented apartments pay as high as 60 per cent of their average disposable income far higher than the 20-30 per cent recommended by the United Nations, Moss (2001). With a wide margin between the demand and supply of housing, either owing to limited new/additional construction activities or lack of housing finance, the chances of encouraging the creation of slums, illegal structures, and non-transparent housing lending are high. Home ownership in Nigeria, for the most part, is on a cash-and-carry basis, with limited use of on mortgage credit. This has continued to hinder the development of a vibrant mortgage culture and the use of mortgage finance as a veritable tool for housing development. Thus, it is not surprising that in Nigeria, mortgage finance as a percentage of GDP accounts for less than 1 per cent of GDP, compared with other economies such as Malaysia (25 per cent), South Africa (29 per cent), Mexico (10 per cent), India (7.0 per cent), and Pakistan (0.6 per cent). In 2009 alone, estimated demand in urban Pakistan stood at 470,000 housing units, at a total construction cost of $5.6 billion, or a financing requirement of $2.0 billion (1.3 per cent of Pakistan's GDP). In Sri Lanka, mortgage financing requirements have been projected at $8.8 billion by 2020, World Bank, (2008). In Nigeria, the apex mortgage bank has estimated that the housing gap of 16 million houses, would require more than ₦56 trillion (US$359.6 billion) to finance at an average cost of ₦ 3.5 million per house.

4.2 *Review of the Performance of Housing Policies*

4.2.1 National

To address some of the aforementioned challenges, several housing policies have been put in place over the years. The history of housing policies in Nigeria dates back to the pre-independence period when there were attempts to provide houses for certain categories of workers in selected organisations. Mostly expatriate officials were the first set of beneficiaries of the government programme, which led to the development of many estates, particularly around industrial and commercial centres. Another category of beneficiaries of the housing programme during the period were the indigenous staff of selected organisations, such as the railways, the armed forces and the postal agency. This programme had the benefit of proper planning and diligent implementation, which led to the development of some of today's highbrow estates such as the Government Reserved Areas (GRAs).

The various national development plans also had the provision of housing as one of their main objectives, particularly in realisation of the need to address the housing challenges that came with the growth of urban population and expansion of major cities. From the First National Development Plan, 1962-1968 up to the end of the 4th Plan in 1985, achievements in terms of meeting the number of housing units target have been below 25 per cent. Indeed, only once, during the 1981 – 1985 Plan was the government able to achieve 47,200 housing units, representing 24.8 per cent out of the modest target of 190,000 units set for the duration of the Plan (at the rate of 2,000 housing units in each of the then 19 states of the Federation).

The achievement levels were worse during all the preceding plans, with only 2.8 and 2.1 per cent achievement rate during the 1975 – 1980 and 1962 – 1968 Plans, respectively. During the 1962 – 1968 Plan, only 500 units of the planned 24,000 housing units were achieved, with just ₦39 million disbursed out of the planned expenditure of ₦84 million. Moreover, of the 1,010,000 planned housing units (at 202,000 units per year), only 28,500 units was achieved, with no record of disbursed amount from the planned total expenditure of ₦1.8 billion. Performance of the next three National Housing Policies was not better either, with an achievement rate of 0.84 per cent during the 1994 – 1995 National Housing Programme, as only 1,014 housing units were constructed out of the planned 121,000 housing units, (Table 5).

Table 5: Government Policies on Housing

	Government Policies			Funding	
Plan Year	**Target/Number of Housing Units**	**Number of Housing Units Achieved**	**Percentage (%) Achieved**	**Budgeted**	**Disbursed**
1962-1968 NDP	24,000	500	2.10%	₦84.0 million	₦39 million
1970-1974 NDP	54,000	N/A	N/A	N/A	N/A
1975-1980 NDP	1,010,000	28,500	2.8%	₦1.8 billion	N/A
1981-1985 NDP	190,000	47,200	24.8%	₦1.8 billion	N/A
NHP 1991-2000	700,000	N/A	N/A	N/A	N/A
NHP 1994-1995	121,000	1,014	0.8%	N/A	N/A
NHP 2002	minimal impact as the Housing deficit still remains over 16 million				

Source: Enhancing Financial Innovation & Access (EFInA) (2010)

In 1994, the Federal Mortgage Bank of Nigeria, with the promulgation of the FMBN Act 82 (1993) and the Mortgage Institutions Act 53 (1989) was accorded the status of the apex mortgage institution and thus ceded its retail function to an autonomous company, Federal Mortgage Finance Limited (FMFL) which was carved out of the FMBN, itself fully owned by the Federal Government of Nigeria. Under the reform of the housing sector based on the Federal Government's 2002/2006 National Policy on Housing and Urban Development, the FMBN was restructured into a Federal Government-Sponsored Enterprise (FGSE) with more focus on secondary mortgage and capital market functions. The FMBN plays the critical role of developing a robust mortgage finance system for the Country. To meet its mandate, it has shifted operational emphasis from only social housing on-lending under the NHF to include commercial on lending for housing, commercial mortgage refinancing, mortgage purchasing and warehousing and Mortgage-Backed Securitisation. Furthermore, it finances mortgages created by Primary Mortgage Institutions

(PMIs) under the National Housing Fund Scheme and also grants Estate Development Loans (EDL) to real estate developers. The bank's overall mandate is to promote the delivery of affordable and modern houses to Nigerians.

4.2.2 Regional, State and Municipal Housing Corporations

Another notable approach to ensuring affordable housing for Nigerians is the establishment of housing corporations specifically to provide mass and low cost housing in cities, towns and designated places within the geographical areas under the jurisdictions of the regional, state and municipal governments. The use of this approach started with the appointment of the Lagos Executive Development Board (LEDB) in 1951, which has since become known as the Lagos State Development and Property Corporation. The major achievement by the then LEDB was the development of over 70 acres of land in Central Lagos into what is today known as Lagos Island made up of Broad Street, Martins Street, Balogun Street and the commercial street of Nnamdi Azikiwe and the rest of central Lagos Island.

Establishment of the regional housing corporations was also another deliberate attempt by the government to develop estates and facilitate acquisition of houses by the citizens. The regional housing authorities also provided mortgages for the people to build or buy houses and pay back over many years. Owing to politicisation of the process and the fact that the regional system of government was short-lived as well administrative centralization, the corporations were able to make a significant impact only in the major cities of Enugu, Kaduna and Ibadan.

Several state governments today have either state housing corporations or established agencies and ministries to implement their housing policies (Table 6). In this way, more and more states are becoming directly involved in providing not only affordable housing through construction and sale of cheap mass housing, but also providing grants to fund the provision of long-term mortgage. These corporations are funded largely through government allocations, while their activities are mainly targeted at the middle income class. It is important to note that most of the houses built by these corporations were sold on cash-and-carry basis.

Table 6: Profiles of State Governments Housing Policies and Programmes as at 2010

STATES	INSTITUTIONAL ARRANGEMENTS/PROG		MAJOR ACHIEVEMENTS
Abuja – FCT	Satellite Town Development Councils & Federal Capital Development Authority.	• Partner with financial institutions and private developers to build and sell houses.	
Jigawa	Jigawa Mortgage Finance Ltd.	• Raise and provide funding for housing programme	Delivery of about 800 housing units in 2003.
Kano	State Housing Corporation	• Builds houses for sale to citizens to pay by installments.	Partnership with private sector and other institutions like African Development Bank have yielded positive results in the past.
Kwara	Ministry of Lands Housing and Urban Renewal	• Prepare Layout, Master Plan & Process Title • Approves mortgages and leases.	Reconstitution of land allocation committee, plan for several estate development and delivery of some estates in the past
Ogun	Ministry of Housing and Mortgage Company	• Develop and sell estates • Provide mortgage loans	• Delivery of 340 low-income houses in 2007 • 800 low to middle income housing units
Rivers	Ministry of Housing	• Urban renewal and greater Port Harcourt City development • Public Private Partnership	Continuous engagement of private sector Rainbow Town Development Project
Lagos	Lagos State Development Property Corporation	• Develop and sell estates • Infrastructure and master plan development	Delivery of estates projects.

Source: Enhancing Financial Innovation & Access (EFInA) (2010)

A review of the activities of the different state housing corporations/agencies show that while most of the corporations and agencies had laudable projects and programmes, their impact had been limited, owing to policy inconsistency, poor implementation and political abuse.

According to the Enhancing Financial Innovation & Access (EFInA) (2010), the cumulative outcomes of all of the initiatives by the various state corporations have remained grossly inadequate. Atypical example is the Lagos State Development Property Corporation, which despite being the most active, has only delivered 25,000 housing units after over three and half decades of existence.

4.2.3 Informal institutions- Unions, Cooperatives and Associations

Private non-governmental organisations are another set of institutions involved in addressing the housing needs of the people. These institutions create economies of scale by bringing together large groups of people to facilitate easy access to land and financing. They could exist either mainly as housing cooperatives or as cooperatives of companies with common interests, including financial commitments. Agboola (1998) noted that they were usually organised as social associations but had more explicit commitment to the financial activities of individuals and thus, the collective interest of their members. They approached developers and authorities as a group to access land and estates at subsidised rates. While cooperatives had always been active, especially in helping members acquire and access assets in the past, they have become more active in recent times with respect to the acquisition of housing, particularly under the prevailing circumstances of huge national housing deficit and the ever-high cost of acquiring land and housing. Housing co-operatives have been described as a society that corporately owns a group of houses or flats in which each member participates actively in all matters concerning the estate[3]. By creating economies of scale, the institutions help members to fast-track the process of housing completion and improve access to land where large plots of land could be acquired for housing development.

[3]Housing Provision in Nigeria.The Cooperative Alternative.Danmole, TaibatOlaitan(2004)

Table 7: Other Institutional Mortgage Finance

COOPERATIVES	STRUCTURE	MAJOR ACHIEVEMENTS
NNPC People Cooperative	• Over 4,000 members including staff of subsidiaries. • Provision of long-term mortgage loans from ₦2 million to members.	Most recent housing estates include Wuye and Mabushi in Abuja and 250 housing units in Buena Vista Estate.
Happy People Society - Ibadan	• Over 5,000 members including retired staff • Provision of investment, special, and asset acquisition loans.	• Cooperative has loan portfolio to members which stood at ₦1.078 billion at end 2011 and asset size of over ₦6.0 billion. • The cooperative has also delivered several land and estate projects for the benefit of members.
Exxon Mobil Cooperative	• Has present and retired staff as members • Very active in the real estate industry. • Has income profile of over ₦2 billion from real estate business.	• Provides housing loans to members • Develops estates for the benefit of members. • Collaborates with other similar bodies for the purpose of housing provision.
Urban Housing Cooperative	• Founded in 1994 with serving and retired civil servants as members	• Most recent project involves the construction of 200 units of houses for the benefit of members.
The Awolowo Union	• About 1000 members • Made up of groups of cooperatives	• Provides loan to members for a period 10-15 years • Builds houses and allocates to members through lottery process. Members pay deposit and balance is spread over a period on monthly payments

Source: EFInA's "Overview of Housing Finance Sector in Nigeria"

4.3 Review of Performance of Mortgage Finance Institutions

4.3.1 Federal Mortgage Bank

With the opening up of the primary mortgage space for the Primary Mortgage Banks, the FMBN now plays the exclusive role of providing a secondary mortgage market while also managing the National Housing Fund (NHF). The Bank also provides long-term loans to estate developers for mass housing programme at affordable prices to the public with installment payments spread over several years. However, the fact that it also manages the NHF allows the bank to lend to contributors to the NHF through the PMBs for purchase or development of house (see details of their activities in table 8 below).

The impact of the FMBN was largely insignificant in the early years of its existence and up till 1990, as less than ₦1 billion was disbursed in total loans. The NHP of 1991 which saw the take-off of the National Housing Fund with an initial grant of ₦250.0 million did not fare better. The programme had an ambitious target of 700,000 housing units per year to meet the then 8 million housing deficit by the year 2000. By the end of 2002, the amount disbursed rose to only about ₦2 billion. Of this amount less than ₦500 million was granted to estate developers with the bulk going to a few middle and high income groups in the Country. From 2002 to end-September 2012 the FMBN approved loans worth ₦184.6 billion for the provision of 57,206 housing units under the three categories of housing loan namely: Estate Development Loan (EDL) to the real estate developers (26,652 units), state housing corporations (9,171 units) and loans to primary mortgage banks through the NHF (21,383 units).

Table 8: Estate Development Loan (EDL) to Real Estate Developers, State Housing

Year	Housing Units	Loan Amount Approved =N= Billion	Total Amount Disbursed =N= Billion	Outstanding Commitments =N= Million
Real Estate Developers				
Sub-Total	26,652	84.25	45.66	38.59
State Housing Corporations				
Sub-Total	9,171	19.73	11.03	8.70
Loan to Primary Mortgage Banks through NHF				
Sub-Total	21,383	80.62	38.16	42.46
Grand Total	57,206	184.60	94.85	89.75
Source: Federal Mortgage Bank of Nigeria (FMBN)				

Out of this amount, only a total of ₦94.8 billion was disbursed to the three categories namely real estate developers (₦45.7 billion), state housing corporations (₦11.0 billion) and loans to primary mortgage banks through the NHF for individual contributors (₦38.2 billion) with total outstanding commitment of ₦89.7 billion. The details of disbursements to EDL and State Housing Corporations from 2002 to 2012 are shown on tables 9 and 10 below. However, this has had little or no impact as evident in the increase in the nation's housing deficit which stood at over 15 million housing, at end-December 2012. (Table 9 and 10).

The Bank has also participated in the secondary mortgage and capital market operations. This is reflected in the partially successful issuance of the first tranche of its ₦100.0 billion FMBN mortgage-backed bonds in 2007 to enable Nigerians, particularly the civil servants, to acquire the non-essential Federal Government houses during the monetization policy of the Federal Government of Nigeria.

Table 9: Estate Development Loan (EDL) to Real Estate Developers 2002-2012

Year	Housing Units	Loan Amount Approved =N= Million	Total Amount Disbursed =N= Million	Outstanding Commitments =N= Million
2002	60	72.50	72.50	
2003	2437	5,203.07	1,908.97	3,294.10
2004	1779	3,425.97	1,544.86	1,881.11
2005	879	1,736.55	777.53	959.02
2006	3256	8,917.09	2,219.50	6,697.59
2007	3775	11,194.72	8,505.26	2,689.46
2008	1898	6,124.29	4,038.12	2,086.17
2009	2605	9,079.67	4,060.38	5,019.29
2010	3039	10,276.63	6,195.95	4,080.68
2011	4551	17,547.13	9,120.39	8,426.74
30th Sept 2012	2373	10,668.05	7,214.37	3,453.68
Total	26652	84,245.67	45,657.83	38,587.84

Source: Federal Mortgage Bank of Nigeria (FMBN) Yearly Loans to Real Estate Developers

In addition, the bank had put in place arrangements towards issuing the second tranche of the bonds valued ₦17 billion. However, the bank was yet to agree on the ₦17 billion, as more requests were being received from the mortgage loan originators (MLOs) and the timeline for the issuance despite its initial plan to issue the second tranche two (2) years after the first one. The continued delay in the issuance of the 2nd tranche by the bank will constitute a denial of affordable houses to Nigerians, most especially civil servants.

Table 10: Estate Development Loan (EDL) to State Housing Corporations 2002-2012

Year	Housing Units	Loan Amount Approved =N= Million	Total Amount Disbursed =N= Million	Outstanding Commitments =N= Million
2002	548	640.45	284.00	356.45
2003	1887	2,759.59	-	2,759.59
2004	1677	2,318.95	1,293.41	1,025.54
2005	1533	3,784.30	2,288.13	1,496.17
2006	894	1,898.67	1,893.35	5.32
2007	100	128.00	1,523.14	(1,395.14)
2008	350	995.10	447.94	547.16
2009	180	407.50	172.05	235.45
2010	734	1,615.70	403.92	1,211.78
2011	1268	5,183.86	1,859.25	3,324.61
30th Sept 2012	0	-	862.24	(862.24)
Total	9171	19,732.12	11,027.43	8,704.69

Source: Federal Mortgage Bank of Nigeria (FMBN) Yearly Loans to State Housing Corporations

4.3.2 National Housing Fund

The National Housing Fund Programme (NHF) was conceived in 1989 as part of the strategy to address the challenge of mobilizing large pool of loanable funds to be purveyed at single-digit and below-market interest rate. The NHF was legislated into existence by the National Housing Fund Act, 1992 with the objective of facilitating the mobilisation of fund for provision of affordable houses, promoting and funding of programmes that involve provision of houses, provide incentives for capital market investment in properties, provide loans to Nigerians and mortgage institutions and ensure proper resource allocation for housing development. The Fund is expected to guarantee more consistent source of funding through membership contributions. By the end of 2005, total loans disbursed reached over ₦10 billion with just over ₦7 billion going to estate developers. Also about ₦300 million had been paid at the end of 2005 as settled NHF refund claims.

The resources as prescribed in section 3 of the Act will be provided from:

i. 2.5 per cent of basic salary by Nigerian workers in both the public and private sectors

ii. 10 per cent of loans and advances by commercial and merchant banks;

iii. 20 per cent of non-life funds and 40 per cent of life funds by insurance companies registered under the Insurance Act.

Funds from the NHF is available specifically as mortgage loan for workers to acquire their homes and also used by the Federal Mortgage Bank of Nigeria to grant estate development loans to private developers and state housing corporations. Although, the introduction of new Management and periodic operational restructuring have marginally improved the operations of the Fund in recent times, the scheme has not lived up to expectation owing to various challenges, ranging from stringent procedures for applicants, inability of applicants to get property title and particularly, lack of commitment by some institutional contributors.

While the banks and insurance companies have not complied with the funding requirements, the regulatory authority has also not been proactive in checking the infractions and ensuring collection not later than a month after the end of the organisations' financial year. During the first ten years of its operation, (1992-2002), total collections amounted to only about ₦10.4 billion, while only a mere ₦1.7 billion was disbursed for 3,500 housing units. To address this observed low performance, government undertook a reform of the housing policy by enacting the Housing and Urban Development Policy of 2002. The reform was focused on enhancing access to mortgage finance and facilitating housing programmes. Some of the reforms included a review of the provisions of the existing Act, strengthening and recapitalisation of some institutions, review of the Land Use Act and creation of the Federal Ministry of Housing and Urban Development.

By end-2005, the reform had resulted in the rise in total collections under the NHF to reach ₦17.8 billion, an increase of 64.8 per cent (₦7 billion) over the preceding reform period. The total loans disbursed also increased by ₦8 billion from ₦1.7 billion before the reform of the housing and urban development sector to about ₦10 billion at the end of 2005. This trend is an indication of the Scheme's potential if all the inadequacies are addressed. At the end of January 2009, the total loans disbursed by the FMBN had reached ₦41.9 billion. This was made up of both loans granted to estate developers and PMBs. The NHF Scheme has achieved a cumulative remittance of ₦70.8 billion at end-December 2011, while the aggregate loan portfolio was ₦137 billion, of which ₦70 billion (representing 51 per cent of the total loan portfolio) had been disbursed for the delivery of over 53,000 housing units in the Federation, (Table 11).

Table 11: National Housing Fund (NHF) Approved/Disbursed Loans to Primary Mortgage Banks

Year	Number of Beneficiaries	Loan Amount Approved N Million	Total Amount Disbursed N Million	Outstanding Commitments N Million
1996	0	-	-	-
1997	7	1.23	1.23	-
1998	18	5.49	2.44	3.05
1999	407	370.01	370.01	-
2000	263	127.12	114.40	12.72
2001	1420	611.86	609.06	2.80
2002	795	663.27	299.97	363.30
2003	191	396.12	305.82	90.30
2004	1257	2,407.12	1,882.70	524.42
2005	721	2,488.39	2,382.98	105.41
2006	2144	6,168.71	4,417.16	1,751.55
2007	1872	7,200.73	4,167.54	3,033.19
2008	1906	7,732.98	4,656.36	3,076.62
2009	1820	6,271.92	1,851.13	4,420.79
2010	3066	14,031.30	10,225.51	3,805.79
2011	2195	12,335.67	5,881.59	6,454.08
30th Sept 2012	2913	18,518.93	852.95	17,665.98
Total	20995	79,330.85	38,020.85	41,310.00

Source: Federal Mortgage Bank of Nigeria (FMBN) Yealy Loan to Primary Mortgage Banks

4.3.3 Primary Mortgage Banks

The performance of the primary mortgage banks in terms of their impact on the housing deficit in the Country has not been satisfactory, given the continued increase in the housing deficit over the years.

Table12: Performance of the Primary Mortgage Banks

Year	Existing	Handed Over to CBN	License Revoked
1989-1996	280	N/A	85
1997	N/A	195	N/A
2001	193	N/A	2
2002/2003	96	N/A	97
2003/2004	79	N/A	17
2004	83	N/A	N/A

Source: CBN Annual Reports

A review of the performance of PMBs shows that they have done poorly from inception, with only 34.2 per cent of the 280 licensed banks at inception in 1989 when the Mortgage institutions Act was enacted, surviving till 1997 when their supervision was transferred to the Central Bank of Nigeria. Out of the 195 handed over to the CBN, only 96 were left at the end of 2003 after another round of licence revocation, which saw 99 losing their licences as a result of poor performance and insolvency. The institutions were constrained by inadequate capital base, poor corporate governance and lack of well-defined business philosophy, Oni (2005).

While the number of the PMBs has increased steadily after the reform to over 100 in 2010, their impact has not been significant in terms of loan value and spread. Their total assets, which stood at over ₦7 billion in 2000, grew to ₦100 billion in 2006 and reached over ₦300 billion in 2010. However, this impressive growth in the assets of the PMBs has not been matched by growth in loans granted by the institutions as the total loan portfolio stood at less than ₦1 billion, representing a mere 12 per cent of the total assets in 2000, and grew to ₦2 billion, representing only 2 per cent of the total assets worth ₦99 billion. At ₦132 billion in 2010, the total loans portfolio of the institutions had grown by 37 per cent. This loan size still fell short of the desired level of optimal loan to asset size.

Given the estimated deficit of about 16 million housing units, which requires over ₦56 trillion to finance at an estimated sum of ₦3.5 million per unit, Nigeria needs to produce about 800,000 housing units annually for the next 20 years, in order to close the gap. Data from the FHA show that it had built only 30,000 housing units between 1973 and 2006. It is, therefore, obvious that there is a critical housing condition in Nigeria. This brings to the fore, the relevance of the market for mortgage finance and the immense potential for mortgage banking.

Despite this huge potential, the Nigerian mortgage banking industry remains relatively underdeveloped and has failed to contribute significantly to closing the Country's housing deficit. One of the main reasons for this position is that the industry lacks the financial capacity to meet the prevailing mortgage requirements. The Nigerian mortgage banking industry has a potentially great developmental impact, both in terms of providing affordable housing and in promoting economic development. However, mortgage penetration remains abysmally low, standing at only about 1 per cent of GDP in 2011. This level of penetration is much lower than the estimated rates for other selected emerging markets but continues to provide opportunities for growth for current and potential players, Agusto& Co.(2011).

5.0 ISSUES AND CHALLENGES

Many initiatives have been put in place by both the government and the organised private sector to provide affordable shelter for the Nigerian populace. However, the development and impact of the Nigerian mortgage industry have been minimal because of many constraining factors, including the following:

- ✓ **Low level of awareness of mortgage infrastructures:** Available data on the implementation of the National Housing Trust Fund over the years indicate that the people who take up mortgages are mostly public servants and those in formal employment. This is, perhaps, because they make monthly contributions to the National Housing Trust Fund and are thus more aware than their private sector or self-employed counterparts. These further impacts on the level of participation in the Fund. Furthermore, state by state analysis indicates that those in the city and urban areas are more likely to show interest in home-ownership than their country-side counterparts. There is, therefore, the need to undertake advocacy among the rural dwellers on the existence and benefits of mortgage facilities and how to access them.

- ✓ **High interest rates charged by domestic financial institutions:** The prevailing high interest rate on mortgage loans granted by commercial banks acts as a disincentive and makes them unattractive. Where such loans are taken, servicing them becomes financially burdensome and unbearable for the borrowers. Furthermore, it has been observed that commercial banks often tout commercial loans as mortgage loans which are granted at high interest rates and tenors of not more than two years. For instance, commercial and mortgage interest rates in Nigeria are in the range of 17-24 per cent, compared to 3-5 percent in most developed economies, making mortgage affordability almost impossible for low and middle income earners in the Country. As a result, most Nigerians would opt for drawdown of personal savings, family contributions, government subsidy on public sector houses, and funds derived from sale of previous houses than approach a bank for a mortgage loan.

- ✓ **Lack of Capacity by Mortgage Institutions and Mortgagors:** There is firm evidence that the PMBs do not have sufficient funds to finance or support home ownership in Nigeria. As a result, property sales in Nigeria are usually on a "cash and carry" basis. Other reasons that have been adduced are the relatively low income-earning capacity, which constrains both savings and the ability to meet the loan re-payment terms and conditions required to secure a mortgage. Anecdotal research evidence indicated that, in the Federal Capital Territory, for instance, annual rental payments for a 2-bedroom residential accommodation are in the range of ₦400,000- ₦500,000 in the suburbs and ₦1million - ₦1.5million in the City. This makes it almost impossible for the average worker to be considered for a commercial bank mortgage loan, since such a client is more concerned about meeting and providing for the other basic needs of life.

- ✓ **Difficulty of obtaining, perfecting and transferring title Documents:** In its 2012 Doing Business Report, the World Bank ranked Nigeria as 180th in a pool of 183 economies on the ease of registering a property. According to the statistics, it takes, on the average, 1.6 years to obtain title documents in Nigeria, owing to the encumbrances of seeking for Governor's consent, and registration of title documents. Local studies have indicated that the processing time varies across regions and could take as long as 3 years in some regions of the Country. The factors responsible for such delays include bureaucratic bottlenecks (arising from delays from the time of submission of an application and when it is approved) and corruption evidenced in the form of private financial charges imposed by staff of land registries on people trying to perfect their title documents when applying for Governor's consent. These bottlenecks limit the possibility of using the land or property in question as collateral for mortgage. If mortgage lenders cannot exercise their right to collateral, mortgage lending will be constrained. According to a 2008 World Bank Study, the cost of registering a mortgage and transferring title documents in Nigeria is estimated at 19 per cent of the property value, compared to 0.04 and 0.08 per cent in Canada and New Zealand, respectively. To alleviate these delays associated with property titles, some Governors had begun to authorise their State Commissioners of Land to sign the Certificates of Occupancy and Governor's consent. However, the situation seems not to have improved significantly as indicated by the 2012 Doing Business Report of the World Bank.

- ✓ **Land Use Act of 1978:** Most stake-holders hold the view that certain provisions in the Land Use Act (1978) constitute the greatest challenge facing housing development, home ownership and the development of the mortgage industry in Nigeria. The process of granting a mortgage loan is constrained by the provisions of the Land Use Act (1978), which in section 22 states that "*It shall not be lawful for the holder of a statutory right of occupancy granted by the Governor to alienate his right of occupancy or any part thereof, by assignment, mortgage, transfer of possession, sublease or otherwise howsoever without the consent of the Governor first had and obtained*" and in section 26 of the Act that "*Any transaction or any instrument which purports to confer on or vest in any person any interest or right over land other than in accordance with the provisions of this Act shall be null and void*". These provisions make it almost impossible to have a hitch-free land acquisition or for a mortgagee to accept title documents as collateral security for a mortgage facility and further exercise his rights and power of sale in the event of a default, thereby constraining the willingness to engage in mortgage lending. This is exacerbated by revocations of land allocations that are often announced with ministerial changes. It is expected that the abrogation of the Land Use Act which is being deliberated upon by the National Assembly would receive speedy attention and put an end to an era of bureaucratic bottlenecks that had bedeviled the perfection of title documents.

- ✓ **Legal challenges**: The lengthy court processes in the Country exacerbate the problem. A common phenomenon is the resort to the courts by mortgage/rental defaulters to get court injunctions to prevent or restrain a foreclosure process from commencing, thereby delaying the process for years. Furthermore, it has become common for a potential purchaser or tenant to insist on vacant possession of a property before payment, as experience has shown that one could actually pay for an occupied property and be eventually drawn into litigation over an occupier who had refused to vacate a property.

- ✓ **Dearth of long- term commercial mortgage facilities**: Most of the sources of funds available for lending are short-term deposits with less than 365-day tenors. In the domestic financial system, an estimated 90 per cent of deposits are of short-term, thus constraining any serious attempt at financing property acquisition, which often requires long-term financing.

- ✓ **Low interest rate on NHF investments:** Prospective mortgage lenders often decry the low interest rates on investments in the NHF since there are more profitable alternative investment outlets and therefore unwilling to invest in the Fund.

- ✓ **Limited sources of funds supply**: One of the major problems for the housing development and improvement is the limited supply of loanable funds. The PMBs and other financial institutions hold a meager 1.0 percent of institutional savings in the system. Furthermore, the gap between household incomes and housing costs is so wide that meeting financing/repayment obligations of borrowers is often uncertain. Nigeria's per capita income is estimated at US$2,300 and the monthly minimum wage is ₦18,000 (US$114), both of which limits mortgage affordability. Also, the major source of funds for the NHF is the 2.5 per cent monthly contribution from the basic salaries of contributory members, which is grossly inadequate to reduce the housing deficit meaningfully. Furthermore, the authorized capital of the FMBN, which currently stands at ₦5billion, is considered low and the institution grossly undercapitalized to adequately address the housing deficit of the Country. Thus, stakeholders have called for the diversification of the sources of funds for housing development and the recapitalization of the Bank to meet the current challenges.

- ✓ **Absence of mortgage re-finance/liquidity companies or a secondary mortgage market:** It is widely acknowledged that the non-existence of a secondary mortgage market and mortgage refinancing activities has seriously hampered the development of the mortgage industry. Thus, there have been sustained efforts at reforming the housing finance sub-sector and revitalizing the mortgage market. In this regard, the Federal Government, through the CBN, has indicated the need to establish a private sector driven Mortgage Refinance Company (MRC) for the purpose of providing both short-and long-term re-financing for mortgage originators and housing finance lenders against a pool of mortgage assets. These entities are expected to complement the efforts of the existing mortgage lenders by refinancing bank mortgage portfolios. It is also envisaged that the seed capital for the MRCs would be sourced from deposit money banks and PMBs, while the CBN would provide a maximum of 10 per cent of the pre-determined seed capital.

- ✓ **Low level of capitalization and inadequate branch network of PMBs:** Undercapitalization of the PMBs has been cited as a constraining factor in the provision of long-term funding for housing development in Nigeria. To address this challenge, PMBs were required to recapitalize latest by April 2013. However, provisional data at the time of this study reveal that only ten (10) out of existing eighty one (81) Primary Mortgage Banks had complied as at end-June 2013. There is also the problem of inadequate network of PMBs as most of them are located in major cities of the Country, such as Lagos and Abuja, making outreach difficult. This is exacerbated by the fact that the PMBs act as the sole intermediaries between the Federal Mortgage Bank and mortgagors under the NHF guidelines. This challenge is being addressed through the revised guidelines for PMBs which now provide for the operation of national and state PMBs across the Federation, subject certain requirements.

- ✓ **Lack of skilled personnel:** The shortage of qualified and technically skilled personnel in the industry is a challenge that has led to a huge patronage and reliance on quacks for various aspects of the mortgage transactions value chain.

Other constraining factors: These include inadequate infrastructure and the high cost of building materials and hiring professionals, which negate the objective of housing affordability as these costs result in the mark-up of housing prices.

6.0 CONCLUSION AND THE WAY FORWARD

This paper provided an overview of mortgage financing in Nigeria and articulated the impact of various housing reform measures. It also highlighted some constraints that should be addressed in order to boost the flow of funds into the housing and construction sector. The financing of national housing programmes should be viewed primarily as a national responsibility, involving both the private and public sectors. The private sector should, therefore, be encouraged to provide the bulk of actual loanable funds for the housing of middle income and upper income groups. For the low income group, however, continued public support, will be required for housing and community development.

The implementation of the revised PMB guidelines is critical in the context of the stipulated deadline of December 31, 2012. The potential of mortgage banking as a veritable channel/platform for affordable housing in Nigeria is largely unexploited and the implementation of the proposed reforms requires concerted efforts to ensure the achievement of the desired goals of affordable housing. In this connection, the Central Bank should continue to evolve policies that would ensure steady flow of financial resources to the mortgage finance sector. The Bank should also increase its surveillance and supervisory activities on the mortgage institutions to ensure their orderly growth and development.

Empirical evidence shows that private sector participation in housing is the most assured way to induce stability in the mortgage finance market. Indeed, the role of Government is to give due attention to creating an enabling environment to encourage private sector participation in long-term housing finance. This includes provision of physical infrastructure, enhancing the soundness and competitiveness of mortgage finance institutions and assuring property rights. There is also a need for sustained re-engineering of the capital and money markets in order to cope with the renewed challenges of provision of mortgage financing. In this regard, the restructuring and strengthening of the FMBN becomes imperative to ensure that it remains a viable financial institution, with enhanced capacity to facilitate the boosting of housing finance in Nigeria. Some issues that require urgent attention include: inadequate funding, huge non-performing loans and lack of strategic focus and absence of reliable data for effective management decision-making. The Board and Management of the FMBN should, therefore, take urgent steps towards addressing these constraints. The Bank should also identify additional funding sources for its operation, given its heavy and unsustainable reliance on NHF contributions as its major source of funding.

Cooperatives, savings and credit institutions are complementary organizations in the housing sector. Furthermore, Savings and loans investment funds may be better placed to serve low-income families if they are channelled through cooperatives. Indeed, the cooperative societies are necessary to encourage savings and loan associations to finance genuine low-income housing, since they enable small individual savings to be pooled into collective mortgage funds. This complementary role should, therefore, be encouraged. In addition to funds through regular budgetary and fiscal programmes, there is need to put in place other measures to boost available investible funds in this sector. These may include the introduction of special–purpose bonds designed to attract institutional investors, firms and individuals to participate.

New sources of funding should be explored through the development of a variety of instruments for the mobilization of funds from the capital market. These include the large-scale securitization of mortgage portfolios, a mechanism that has remained the primary engine of growth in the housing finance system of countries such as the United States, Germany, France, Italy and South Korea. For example, the National Housing Fund in South Korea thrives on, not only the deposit subscriptions, but also housing bonds issued by the Housing Bank to finance housing development programmes. Therefore, broadening the capital market to encourage the sale and exchange of housing-related securities, i.e. housing bonds, mortgages, loan participations and certificates, could generate additional leverage. This is an important means to attract short and medium-term investment funds into the sector. There is also a need to continue with sound economic and monetary policies to overcome the negative effects of inflation on housing and other construction finance, which require long-term credit in the Country. This is because high and persistent inflation erodes the real value of money and is a major constraint to the extension of long-term credit. Another way of moving the mortgage industry forward is to tap from the over ₦3.0 trillion pension funds. Meanwhile, the government is proposing to guarantee any such funds released for the development of the mortgage sector. This would boost not only the supply of housing for all but also employment for the teeming population.

Given that Nigeria is a capitalist-oriented country, moving towards a private sector driven economy requires legislative instruments that would promote the development of free enterprise markets. Therefore, the Land Use Act, (1978) should be repealed as it is a Socialist-oriented policy in a capitalist economy. It is also, in practice, an urban legislation as it is not applicable to the rural areas. The land-holding institutions, including the Federal, State, and Local Governments as well as communities, families, schools and individuals know their holdings and limitations and, therefore, a repeal of the Act would not result in any controversy. Indeed, the Act has been a major constraining factor in housing development in Nigeria and its repeal, is, therefore, long overdue.

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Appendix Tables: Glossary

Appendix1

1.0 Features and Parties of a Mortgage

The intrinsic elements and forms of mortgage may vary on a country by country basis, but the fundamentals remain similar.

1.1 The mortgagor is the party that borrows the money or the debtor who has an ownership right to the real estate upon liquidation of the loan.

1.2 The mortgagee is the fund provider or lender which may be a financial institution such as a bank or an investor with vested interest in the mortgage through a mortgage backed security.

1.3 Mortgage originator: The mortgage originators are those lending institutions that fund or provide the credit for the mortgage. They are often referred to as the primary lending institution or mortgage lending institutions and include mortgage firms, banks, savings and loans, building societies, credit unions, or housing finance agencies. Once an originator makes a mortgage loan, it can decide to hold the mortgage in its institutions' portfolio or it can sell the mortgage in the secondary market.

1.4 The mortgage note is a document which states the transaction terms such as the amount of debt, interest rates, monthly repayments, due dates, repossession rights of the lender, sale rights of the borrower, prepayments penalty if any, requirements to purchase insurance reserves if any, as well as borrowers promise to pay back the debt. Other crucial elements of a mortgage are the property which is being financed. The principal is equivalent to the original amount being loaned and whose nominal value declines as principal repayments are made. Foreclosure, also called repossession refers to the likelihood that the mortgagee can repossess or seize the property under certain circumstances, often times in the event of a sustained default in repayments.

1.5 Mortgage brokers are third party agents or sometimes loan officers that process loan applications and are often entitled to a collection or processing fee. They take the responsibility of sourcing and choosing a primary lending institution to finance the mortgage.

Appendix 2

2.1 Legal Issues of a Mortgage

A mortgage is executed according to the laws of the jurisdiction where the property is located. In some jurisdictions, it is treated as a full transfer or conveyance of title to the lender until the full repayment of the debt. Others treat it as a lien which entitles the debtor or borrower to all ownership rights subject to the fulfillment of the terms of the mortgage. In some other areas, the security is the property itself, while some recognize it as a deed of trust.

2.2 Types of Mortgages

There are different types of mortgages, but the most common are the fixed rate and adjustable rate mortgages. Other types tend to be combinations of these two.

2.2.1 Fixed Rate Mortgages

Fixed rate mortgages are the most common type of mortgage. A fixed rate mortgage has interest rate set at a fixed/constant rate throughout the life of the mortgage. Thus, a mortgagor who has a 20 or 30-year mortgage under the terms of a fixed rate mortgage will be required to make constant monthly interest payments. There are two outcomes that are likely to arise from the fixed rate mortgage; the mortgagee bears the interest rate risks that could arise during the length of the mortgage and the high possibility that during the life of the mortgage the lender would realize that he has booked mortgage loans at below market rates which often times lead to a higher interest rate offered under a fixed rate mortgage.

2.2.2 Adjustable Rate Mortgages (ARM)

ARMs have interest rates that vary over the term of the loan, but are usually lower than fixed rate mortgages. Here, the mortgagor enjoys a lower and fixed interest rate and monthly repayments for an initial period of time, which may vary between 6 months- 6 years. Upon the expiration of the initial period as defined by the lender, the rates and subsequent monthly repayments become adjustable, reflecting market rates. The frequency of adjustment of rates varies depending on the stipulated terms by the lender. However, unlike the fixed rate mortgage, the interest rate risks are borne by the borrower. Other forms of Mortgages include: legal, equitable, home equity mortgage, commercial mortgage and investment mortgage among others.

Appendix 3

3.0 Types of Mortgage Markets

The mortgage market is a phrase that describes a vast array of institutions and individuals who are involved with mortgage finance in one way or the other. This market is broken down into two separate yet connected entities.

3.1 The Primary Mortgage Market

A primary mortgage market is the market where new mortgages are originated, securities or goods are actually created. For example, if deposit money banks (DMBs) lends a homebuyer the money to buy a house via the use of a mortgage loan, that would be a primary market activity. The dominant primary lenders are DMBs, Savings Associations (SAs), Mutual Savings Banks and Mortgage Banks. Specifically, the primary mortgage market is made up of primary lenders that originate new mortgage loans for borrowers.

3.2 The Secondary Mortgage Market

The secondary market is the segment of the mortgage market where existing mortgages are resold, not where they are originated. Mortgages in this market are often grouped together into tranches based on risk, size and structure, and are then sold as a collateralized debt obligation, mortgage backed security or other type of derivatives.

Furthermore, the secondary market is the market where banks sell mortgages to other investors. This allows banks to spread their risks over different investments. For example, a bank may decide to sell majority of its mortgages on the secondary market, while another bank or investment firm may buy a portion of the mortgages. By so doing, losses are spread over a large area. Institutions and agencies in the secondary mortgage market recycle capital by purchasing loans previously made by primary lenders. Some examples of secondary mortgage market investors include insurance companies, and pension funds.