Financial System Strategy 2020

FSS 2020 International Conference

Mortgage
Presentation Outline

- Industry/Sector Overview
- Current Position Assessment
  - Industry Structure (Players, Regulators, Products etc)
  - Industry Trends
- Industry Issues, Gaps & Key Success Factors
- Industry Vision and Mission
- Proposed Industry Model
- Strategic Objectives & Initiatives
- Implementation Plan & Timelines
Financial System Strategy 2020

Sector Overview
Industry/Sector Overview

- Housing Shortfall; estimated at between 12 – 16 million
- Mortgage Finance requirement for the country is conservatively put at between 15 – 20 trillion naira.
- Housing stock in Nigeria is estimated at 10.7 million, out of which only about 5% is in formal mortgage.
- Effectively about 95% of home equity/saving in residential developments are dead assets.
- Home ownership in Nigeria put at 10% compared to 72% US, 78% UK, 60% China, 54% Korea, 92% Singapore.
- Outstanding mortgage loan is said to be 0.5% (2005) of GDP compared to 77% US, 80% UK, 50% Hong Kong, 33% Malaysia, 61% Singapore.
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NIGERIA:
Current Position Assessment
Sources of Funds/Lenders

- Private Savings
- FMBN/NHF
- Banks
- Insurance
- Nigerians in Diaspora

Housing Finance Industry

Borrows

- Individuals
- Government Agencies
- Corporate Organisations
- Developers

Industry Structure
Industry/Sector Structure: Players

- Personal Savings

- Deposit Money Banks (DMBs)
  - Before deregulation, there was sectional allocation to housing. Represented about 3.5% of loan portfolio of FS by 2004.
  - Characterized by high interest rate (more than 25%) and short tenure (average 3 years) due to short maturity profile of deposits, over 60% with tenure of 1 – 30 days

- Federal Mortgage Bank
  - Initially financed through budgetary allocation, that dwindled from 3.5% of Annual Budget 1970 to 1.7% in 1990.
  - Lacked robust deposit base, capacity to compete for deposit, collection system, refinancing mechanism etc. became distressed at a time
  - Currently acts as custodian institution for NHF.
Industry/Sector Structure: Players

- Primary Mortgage Institutions/NHF
  
  - NHF funding base seem inadequate for housing finance need of the country. Total collection by 2005 were N15.4 billion with loan application standing at N39 million. Approved loan at N20 billion for 13,672 units (average N1.46m/unit) with only N10 billion disbursed.

  - Ceiling of N5 million is placed on housing loan and processing time is between 2 – 3 years.

  - Perception is that the contribution is a regressive tax that confers significant benefit to contributors, hence low collection rate.
Industry/Sector Structure: Regulators

- Central Bank of Nigeria
- Self Regulation
Industry/Sector Trends

- Pension and Insurance reforms. Capacity to provide long term fund for market

- Bank Reform/Consolidation:
  - Banks are refocusing on consumer banking with growing interest in mortgages
  - Offshore financial institutions targeting Nigeria
  - Mortgage market through the banks.

- Mortgage Sector Reforms
  - Recapitalization of PMI between N500m – 2 b over next 18 months
  - FMBN as lead depository institution is also undergoing reforms
  - Floated N100b mortgage bond for purchase of Federal Government houses. First of such role.
Industry Issues

■ Property and Security Rights
  • Absence of clear property & security rights, Power of Revocation
  • Mandatory consent by Governor for transaction

■ Land Management/Record System
  • Accuracy of Registration
  • High cost associated with land transaction

■ Legal and Regulatory Framework
  • Lengthy, rigid and ineffective foreclose procedure

■ Long Term Funding Sources
  • Absence of long term funding sources
  • Short term nature of deposit money institutions

■ Housing Delivery System
  • Access to land for Development

■ Nature of Market Maker
  • Government or Private Sector led?
Key Success Factors

- Strong property and security rights
- Sources of long term funding
- Effective Housing delivery system
- Appropriate legal and regulatory framework
- Existence of Market Maker(s)
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Sector Vision and Mission
Vision

To have one of the safest and most profitable mortgage markets among the emerging economies.

Key Elements of the Vision Statement

- Safety
- Profitability
To use mortgage market as a major agent of positive social and economic change by making mortgage finance available to all classes of Nigerians”

Key Elements of the Mission Statement

- Availability to all classes
- Affordability to all classes
Vivid Description of Vision

By the year 2020

Expected End State

- Nigeria would have developed a mortgage market that is safe and profitable. A market that would have provided access to housing finance to over 30% of Nigerians in all social classes in urban centres to own their own houses;

- A market that has multiple long-term funding sources including full integration with the Nigerian capital market where the value of listed mortgage backed securities will be at 20% of the market capitalization of equities;

- A market that would account for about 15% of the gross domestic product of the country, stimulating construction activities with attendant multipliers and providing up to 10% of the population with jobs.
Proposed Industry Model

Source of funds
- NHF
- Savings Deposits
- Deposits
- Insurance & Life Pensions
- Nigerians in Diaspora

Originate
- PMIs

Review Loans
- Banks

Second Tier Activities
- STIs
- FMBN + Others
- Conduits

Primary Market
- Pensions Funds
- CBN Housing Fund
- Insurance
- Others

Second Tier Market
- Mortgage Security Dealers
- Capital Market

Secondary Market
Strategic Objectives & Initiatives

- Establish a safe and profitable mortgage market in Nigeria by setting up appropriate infrastructure/institutions and re-modeling existing ones
- Introduce a new framework to strengthen Property/Security Right
- Use the mechanism of the mortgage market to make affordable long term finance available to all classes of Nigerians to own their own homes and build wealth
- Enhance the use of market mechanisms to improve the housing delivery system.
Establish a safe and profitable mortgage market in Nigeria by setting up appropriate infrastructure/institutions/processes and re-modeling existing ones.

- Convert State Housing Corporation into land companies with mandate to develop new geographic areas in each state.

- Develop and introduce new certification processes and building codes for the delivery of private housing to make them ‘mortgage ready’

- Introduce registration for real estate developers/Trade Associations by the governments (Federal & State) to manage distribution of incentive and support programmes.

- Restructure and empower Federal Housing Authority (FHA) to commence management of Federal guarantees, insurance, incentives and subsidies to facilitate development of mortgages.
Initiatives

- Introduce a new framework to strengthen Property/Security rights
  - Deconstititutionize the Land Use Act
  - Remove the requirement for governor’s consent on land transactions in the Land Use Act
  - Remove the arrangements for foreclosure proceedings on real estate from general common law provisions
  - Establish specialized courts/tribunals that will fix the terms and timing of challenge/contestation of foreclosure.
  - Commence the automation and eventual integration of all records and processes of local, state and Federal Government land.
  - Reduce statutory cost structure of all land transactions
Initiatives

- Use the mechanism of the mortgage market to make affordable long term finance available to all classes of Nigerians to own their own homes and build wealth

  - Convert existing NHF to a Second Tier Institution (STI) focused on providing liquidity to primary lenders and also promoting the emergence of a secondary market.

  - Develop and roll-out framework to enable the Central Bank swap mortgage asset of DMBs with treasury bills and also weigh mortgage asset for liquidity reserve requirement

  - Develop and roll-out incentive framework (Tax concessions, matching contributions etc) to encourage institutions (Banks, Insurance Companies, Government) contribute to the Second Tier National Housing Fund as contained in the existing laws

  - Encourage the creation of additional Second Tier that will serve as conduit for mortgages originated by PMIs (To enable competition).
Initiatives

- Restructure and convert existing NHF levy for salaried workers to operate as a mandatory savings scheme to be held with recapitalised PMIs
- Recapitalise and Refocus scope of operations of PMIs
- Review existing asset allocation framework of Pension funds to channel greater funding to mortgages.
# Implementation Plan

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<tr>
<th>Time-Buckets</th>
<th>Responsibility</th>
<th>Dependents</th>
<th>FSS 2020 Sector Objectives and Initiatives</th>
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<tr>
<td>1st Qtr 08 – 2nd Qtr 08</td>
<td>Federal Ministry of Housing</td>
<td>Approval of new framework (1.1.2)</td>
<td>Introduce registration for real estate developers/Trade Associations by the governments (Federal &amp; State) to manage distribution of incentives and implement support programmes</td>
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<td>4th Qtr 07 – 1st Qtr 08</td>
<td>SROs &amp; REDAN</td>
<td>Strengthened industry groups (REDAN)Training of personnel to supervise/monitor</td>
<td>Develop and Introduce new certification processes and building codes for the delivery of private housing to make them ‘mortgage ready’</td>
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<td>4th Qtr 07 – 4th Qtr 09</td>
<td>Individual State Governments – Executive + Legislature</td>
<td>Mandate/Charter change</td>
<td>Convert State Housing Corporations into land companies with mandate to develop new geographic areas in each state</td>
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<td>4th Qtr 07 – 4th Qtr 09</td>
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**Objective 1** – Establish a safe and profitable mortgage market in Nigeria by setting up appropriate infrastructure/institutions/processes and re-modeling existing ones.
| 1.1.4 | **Objective 2 – Introduce a new framework to strengthen Property/Security Rights** | **Restructure and empower Federal Housing Authority (FHA) to commence management of Federal government guarantees, insurance, incentives and subsidies to facilitate development of mortgages** | **Definition and approval of new governance framework and organizational re-alignment** | **Federal Ministry of Housing Management of FHA** | 2nd Qtr 08 – 4th Qtr 08 |
| 1.2 | **Deconstitutionize the Land Use Decree via the mechanism of the National Council of State** | **Remove the requirement for governor’s consent on land transactions in Land Use Act** | **National Council of State** | 4th Qtr 08 |
| 1.2.1 | **Remove arrangements for foreclosure proceedings on real estate from general common law provisions and enact laws that clearly define the rights and obligations of creditors and lenders in foreclosure proceedings** | **Individual States Executive & Legislature** | **Ministry of Justice/Attorney General** | 4th Qtr 08 |
### Conclusion

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<th>Objective</th>
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<th>Ministry/Agency</th>
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<td>1.2.5</td>
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<td>1.3</td>
<td>Objective 3 - Use the mechanism of the mortgage market to make affordable long term finance available to all classes of Nigerians to own their own homes and build wealth</td>
<td>Ministry of Housing/FMBN</td>
<td>1st Qtr 08 – 4th Qtr 08</td>
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<td>1.3.2</td>
<td>Develop and roll-out incentive framework to encourage institutions contribute to the Second Tier Fund as contained in the law (e.g Banks, Insurance Companies, Government) – Tax concessions, Matching contributions etc</td>
<td>Ministry of Housing</td>
<td>1st Qtr 09 – 4th Qtr 09</td>
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<td>Encourage the creation of additional Second Tier Institutions that will also serve as conduits for mortgages originated by PMIs and DBM</td>
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<td>1.3.7</td>
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<td>1.3.8</td>
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<td>1.4.2</td>
<td>Develop and introduce incentives to encourage private sector market specialisation at different housing tiers and income levels – e.g low income, medium income, or high income or 1st home owners etc</td>
<td>Central Bank, FMBN</td>
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### 5.2 GANTT CHART

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