

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



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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 10.7million, 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.

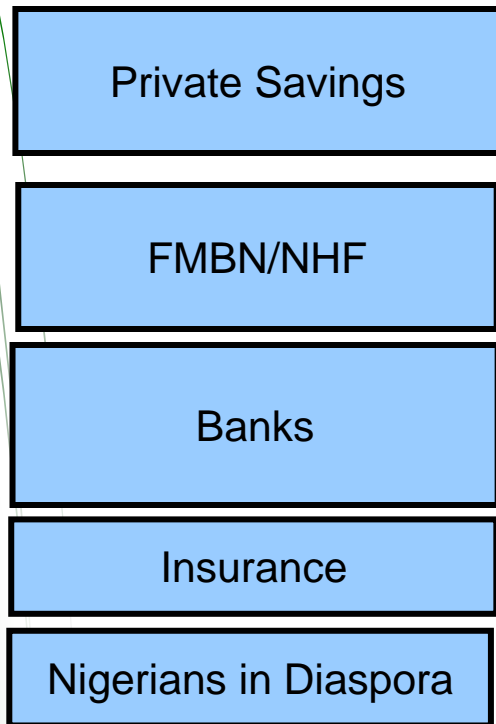


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NIGERIA: Current Position Assessment

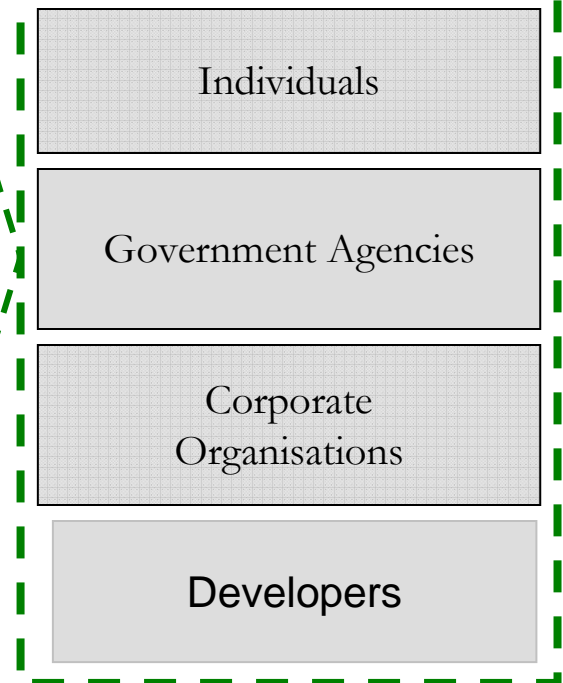
Sources of Funds/Lenders



Housing Finance Industry



Borrows





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



- 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

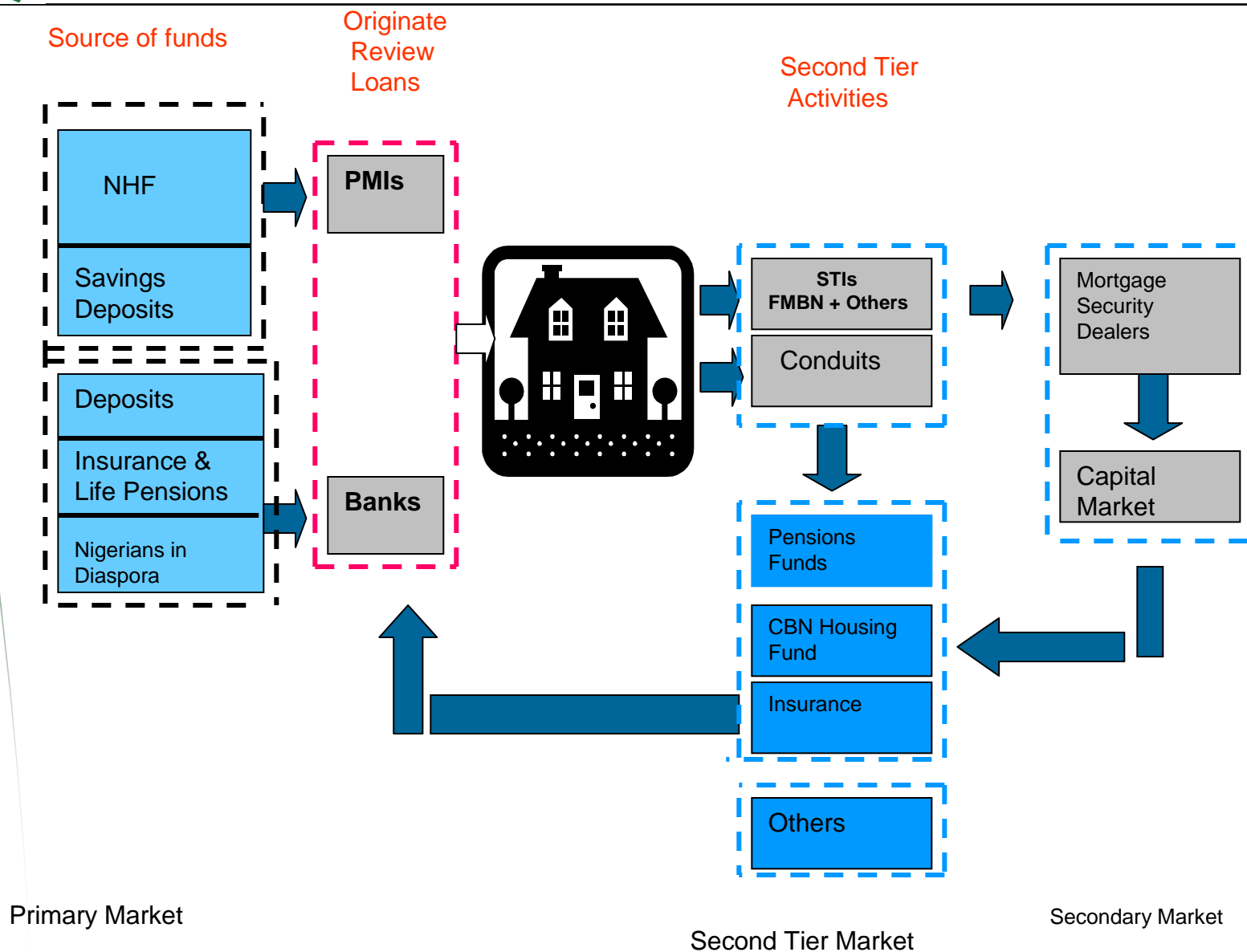
By the year 2020

■ 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





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.



Initiatives

- 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.



- Introduce a new framework to strengthen Property/Security rights
 - Deconstitutionize 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



- 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

	FSS 2020 Sector Objectives and Initiatives	Dependents	Responsibility	Time-Buckets
1.0	Objective 1 – Establish a safe and profitable mortgage market in Nigeria by setting up appropriate infrastructure/institutions/processes and re-modeling existing ones			
1.1.1	Convert State Housing Corporations into land companies with mandate to develop new geographic areas in each state	Mandate/Charter change	Individual State Governments – Executive + Legislature	4th Qtr 07 – 4th Qtr 09
1.1.2	Develop and Introduce new certification processes and building codes for the delivery of private housing to make them 'mortgage ready'	Strengthened industry groups (REDAN) Training of personnel to supervise/monitor	SROs & REDAN	4th Qtr 07 – 1st Qtr 08
1.1.3	Introduce registration for real estate developers/Trade Associations by the governments (Federal & State) to manage distribution of incentives and implement support programmes	Approval of new framework (1.1.2)	Federal Ministry of Housing	1st Qtr 08 – 2nd Qtr 08



1.1.4	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	Objective 2 – Introduce a new framework to strengthen Property/Security Rights			
1.2.1	Deconstitutionize the Land Use Decree via the mechanism of the National Council of State		National Council of State	4th Qtr 08
1.2.2	Remove the requirement for governor’s consent on land transactions in Land Use Act		Individual States Executive & Legislature	4th Qtr 08
1.2.3	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		Ministry of Justice/Attorney General	4th Qtr 08



Conclusion

1.2.4	Introduce specialized court/tribunal that fix the grounds and timing of challenge/contestation of foreclosure		Ministry of Justice/Attorney General	4th Qtr 09
1.2.5	Commence the automation and eventual integration of all records and processes of local, state and Federal Government land registries		State Executive/Commissioner for Housing	3rd Qtr 07
1.3	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			
1.3.1	Convert existing NHF to a Second Tier Institution focused on providing liquidity to primary lenders and also promoting the emergence of a secondary market		Ministry of Housing/ FMBN	1st Qtr 08 – 4th Qtr 08
1.3.2	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		Ministry of Housing	1st Qtr 09 – 4th Qtr 09



1.3.4	Encourage the creation of additional Second Tier Institutions that will also serve as conduits for mortgages originated by PMIs and DBM		Central Bank	1st Qtr 10 – 4th Qtr 10 3rd Qtr 08 - 4th Qtr 08
1.3.5	Restructure and convert existing NHF levy to operate as a mandatory savings scheme to be held with re-capitalised PMIs		FMBN/ Central Bank	3rd Qtr 08 - 4th Qtr 08
1.3.6	Develop and roll-out framework to enable the Central Bank swap mortgage asset of DMBs with treasury bills and weighting mortgage asset for reserve requirement		Central Bank of Nigeria	4th Qtr 08 – 4th Qtr 09
1.3.7	Review asset allocation framework of Pension funds to permit the allocation of greater direct funding to mortgages thru intermediaries		Pencom	4th Qtr 08



1.3.8	Recapitalise and Refocus scope of operations of PMIs		Central Bank	2nd Qtr 07 – 4th Qtr 08
1.4	Objective 4 – Enhance the use of market mechanisms to improve housing delivery system			
1.4.1	Encourage financiers to focus on providing end-to-end funding for real estate developments		Market players	
1.4.2	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		Central Bank, FMBN	

5.2 GANTT CHART

ID	Task Name	Qtr 4, 2007			Qtr 1, 2008			Qtr 2, 2008			Qtr 3, 2008			Qtr 4, 2008			Qtr 1, 2009			Qtr 2, 2009			Qtr 3, 2009			Qtr 4, 2009			Qtr 1, 2010			Qtr 2, 2010			Qtr 3, 2010			Qtr 4, 2010		
		Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
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4	Introduce registration for real estate developers/Trade Associations by the governments	[Blue bar] Federal Ministry of Housing																																						
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6	Introduce a new framework to strengthen Property/Security Rights	[Solid black bar]																																						
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8	Remove the requirement for governor's consent on land transactions in Land Use Act	[Blue bar] Individual States Executive & Legislature																																						
9	Remove arrangements for foreclosure proceedings on real estate from general common law provisions	[Blue bar] Ministry of Justice/Attorney General																																						
10	Introduce specialized court that fix the grounds and timing of contestation of foreclosure	[Blue bar] Ministry of Justice/Attorney General																																						
11	Commence the automation and eventual integration of all records and processes of land registries	[Blue bar] State Executive/Commissioner for Housing																																						
12	Reduce statutory cost structure of all land transactions	[Blue bar] State Executive/Commissioner for Housing																																						
13	Use the mechanism of the mortgage market to make affordable long term finance	[Solid black bar]																																						
14	Convert existing NHF to a Second Tier Institution focused on providing liquidity to primary lenders	[Blue bar] Ministry of Housing/ FMBN																																						
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