

Market Update

Friday, May 29, 2009

IMPROVING HOUSING FINANCE IN NIGERIA

Nigeria's chronic lack of housing finance is a condition that must be addressed if the 7-point agenda of the federal government is to be accomplished. It is also critical to the realisation of the Millennium Development Goals. The funding gap of N12tn must be closed in order to meet the current housing stock deficit.ⁱ 80% of the funding gap is required by low and middle income households for which there is a 9.6mn unit housing deficit. The low level of activity in the mortgage sector is evidenced by the fact that mortgage finance is equivalent to less than 0.5% of GDP in Nigeria, compared to 3% in Ghana, 5% in India and 20% in South Africa, at end of 2007.

There are two primary sources of housing finance - public institutions such as the Federal Mortgage Bank of Nigeria (FMBN) or private institutions such as commercial banks. More recent developments have led to the creation of a number of private-public partnership structures which attempt to address the most significant obstacles to the financing and delivery process. No real impact has been recorded to date, and the challenge remains to create and utilize holistic models which will begin to make an impact on the sector. The activities and performance of the Primary Mortgage Institutions (PMIs), in their core function of mortgage finance provision for home ownership needs to be critically reviewed.



The Director, Other Financial Institutions department of CBN said earlier this year: "The Primary Mortgage sub sector has been characterized by under trading, evidence of which we find in high liquidity ratios and huge placements in the universal banks, which stood at N118.1 bn as at December 31, 2007. Regulators also observed low compliance (30%) to the prescribed 60% ration of mortgage assets to total assets. Central Bank of Nigeria (CBN) and the National Insurance Commission (NAICOM) has not made any effort to enforce the statutory requirement for commercial banks and insurance companies to ensure that certain percentage of their loan portfolio were in mortgage."

HOUSING FINANCE TRENDS IN NIGERIA

Inefficiencies in the housing finance subsector have already been identified by sector players. Inadequate capitalization of most primary lenders limits their ability to create sufficient mortgages to meet market demand. Other problems identified are;

- **High interest rates** reflecting risk and source of funds. Bulk rates of 14 – 15% plus waivers and discounts on other charges for large development buyers and blue-chips (e.g. Co-operative Societies of the multi-national companies). Standard individual/retail rate of a minimum of 18% (exclusive of charges).
- **Tedious mortgage process**, from commencement to drawdown, usually between 3-6 months at commercial banks and 9-18 months at the National Housing Fund.
- **Lack of a credit information system**
- **No long-term capital.** Lenders sources of funds are mainly short-term in nature with the result that they may be subjected to significant liquidity mismatch should they allocate a substantial portion of their assets to mortgages

- **Short Tenure:** this has become a point of differentiation for commercial banks, as they offer 20-25 year mortgages, compared to 10 year mortgages offered by PMIs.

However, commercial banks tend to only target the high end of the market. Also despite the advantages thereof, securitization is almost non-existent in the market place. The loss of focus by some PMIs in favour of non-core activities such as trading as well as the slow disbursement of NHF to the PMIs, made some them to be competing with the banks in sourcing for funds for purposes other than mortgagesⁱⁱ.

AVAILABLE HOUSING FINANCE OPTIONS

The various government and private sector programs which are meant to address housing finance have not been sustainable due to uncertainty in the sources of these funds. For example, the mandatory salary contribution to the National Housing Fund (NHF), which has significant leakage, is not enough to fund a robust program. The Fund has also had difficulty attracting investments from banks and insurance companies because it is unable to offer attractive terms.

FMBN Loan

The Federal Mortgage Bank of Nigeria (FMBN) is still the major source of mortgage finance, via the National Housing Fund (NHF). The goal of the Fund is to provide housing loans for every Nigerian at relatively low rate of interest. To borrow from the Fund one must also be a contributor (contribution at 2.5% of salary, monthly).

	2002	2008
NHF Fund base	N10.3bn	N41.96bn
Registered Contributors	1,855,686	3,427,348
Average contribution	N5,550.50	N12,242.70
Participating states	3	24
Ave. Contribution/State	N3.43bn	N1.75bn

According to FMBN the NHF increased in size from N10.3bn in 2002 to N41.96bn as at January 31, 2009, a 300% increase. The number of registered contributors increased from 1,855,686 in 2002 to 3,427,348 at the end of January 2009. The Acting Managing Director of the FMBN, Mr. Abdulsalam Ahmed, states that an aggregate cumulative of N78.63bn had been approved since inception of the NHF scheme for both the Primary Mortgage Institutions and estate developers to finance the construction and ownership of 43,402 units. However, only N42.12bn has been disbursed in loans to date.

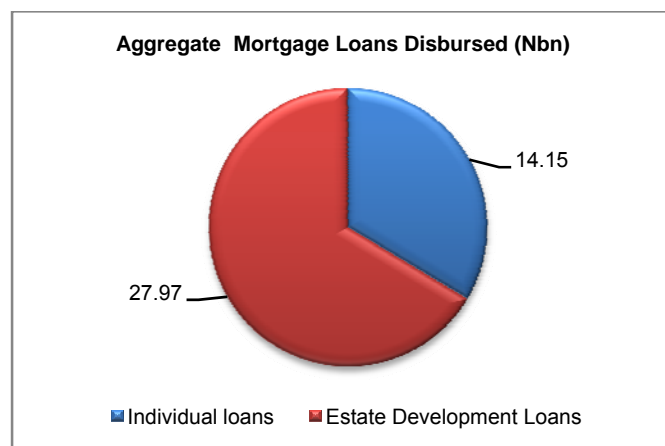


Figure 1: Aggregate Mortgage Loans Disbursed for National Housing Fund

NHF Estate Development Loans

To facilitate the supply of affordable housing the NHF also extends loans to developers of mass residential housing units, at interest rate of 10% p.a. and for a tenor not exceeding 24 months, subject to revision. The loans are usually between \$5mn and \$10mn per developer, thus they tend to attract small and medium developers. Larger developers often pursue foreign capital partners (OPIC) who can provide significant capital that can match the scale of their developments with less hassle than the government.

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Despite the realization of the fact that over 60% of the active population cannot afford houses of N5mn, there is still no channel beyond the FMBN for low-income housing (homes below N2.5mn). Mortgages from commercial banks offer a longer tenure but unaffordable for the low-income population.



Zenith Bank-USAID Mortgage Program

The \$10mn mortgage scheme partnership program between Zenith Bank and the United States Agency for International Development (USAID) to provide home ownership financing to low and middle income earners was launched Q4, 2006. It only applies to new housing units and it must be the primary residence of the loan recipient in Lagos, Abuja, Kano and Port Harcourt areas of Nigeria. However the duration of the loan cannot exceed 12 years, making it prohibitive for most Nigerians.

WAY FORWARD

The government should strengthen regulation of mortgage finance to improve transparency and credibility of Mortgage financial institutions, real estate developers, mortgage borrowers and mortgage insurance firms. There should also be increased sensitisation and enlightenment on the National Housing Fund, the activities of the Federal Mortgage Bank of Nigeria and the overall mortgage subsector.

The regulatory bodies (CBN/FMBN) must harmonise and implement all pending reforms critical to sustainable housing finance delivery to the housing sector. The situation of under trading by PMIs must be critically resolved as it is an indication of inefficiency in the system.

There is a need to move provision of housing finance away from extensive reliance on special circuits towards integration of housing finance into the broader financial markets. The current situation where only 2 out of 90 PMIs are listed shows that the capital market options for raising fund has not been fully exploited by the PMIs.

Commercial banks and Insurance companies should be encouraged by the regulatory bodies to commit more of their credit and funds into the housing sector. PMIs should approach DFIs for strategic alliances that will enhance their capacity to deliver credit to the housing sector more effectively. Commercial banks should buy into emerging credit registry firms. While the credit registry firms should deploy efficient systems that will enable fast credit search process.

The mortgage processing time should be reduced to a maximum of 30 days. Since the contributors to the NHF have 'sowed' into the fund, it is their right to access mortgage at single digit interest rate. Contributors to the fund are stakeholders or unit holders thus the approval must be streamlined in such a way as to facilitate quicker access to mortgage.

If the NHF is to stay, a more effective contribution channel must be considered. Contributions to the NHF can be deducted from employees' pay through the PAYE system such that the Tax Boards now remit that portion of the tax revenue to the NHF. This will immediately expand the fund base.

NEWS FLASH

LAGOS ATLANTIC CITY PROJECT PROMPTS TIGHTER TERMS FOR WATERFRONT ALLOTTEES

Additional regulations have been introduced by the Lagos State Government with regards to the use and management of shoreline properties, as well as the conduct of sand dredging operations in the State. These come as LASG embarks on renewed efforts to curb illegal sand mining activities. These efforts are coming ahead of anticipated developments on the Lagos Atlantic City project; whose environmental impact assessment study is to be unveiled to public scrutiny. The project, which is wholly private sector driven, will create 820 hectares of land. It is expected that nearly half a million people will live and/or work out of this development.

Commissioner for Waterfront and Infrastructural Development, Prince Adesegun Oniru, said last week that "The primary purpose of the Atlantic City project is to take back what the ocean surge had taken away from the Bar beach. The project is to compensate for ground lost to the ocean surge". 12 applicants have applied for shoreline protection and extension requiring sand filling within the Victoria Garden City (VGC), Park View, Ikoyi, Banana Island/Victoria Island annex and Osborne road fore-shore axis, said Oniru

While the new regulations would permit allottees to enter into agreements to carry out shoreline protection, they would not be allowed to extend their land area. This regulation is to curb the arbitrary extension of waterfront plots by allottees. The Waterfront Ministry has also taken on the responsibility of making allocations to prospective allottees and preparing the Certificates of Occupancy (C of O) upon presentation of the layout, which is subsequently sent to the Ministry of Lands for registration.

The new regulations have introduced additional costs and processes specific to development along the shoreline and investors with an appetite for waterfront projects will continue to bear these costs, and wade through more convoluted ownership and approvals process for the foreseeable future. This is further compounded by the yet-to-be resolved tussle over the right of development control between Lagos State and Federal Government agencies on waterfront properties in Lagos.



ⁱ Brig. Gen Tunde Reis: *Funding For Affordable Housing –Instruments and Strategies for Nigeria. October 2008*

ⁱⁱ Chief (Dr.) J. O. Sanusi: *Mortgage Financing in Nigeria: Issues and Challenges. January 2003.*