

**MORTGAGES AS A TOOL IN CREATING 500,000
HOUSING UNITS BY YEAR 2016**

A PAPER PRESENTED BY

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Synopsis

Shelter in the form of Housing is a basic Human Need and has continually arisen as a key deliverable on the Agenda of all Nigerian governments since independence; yet 53 years later, numerous challenges still impair Nigeria's ability to create a vibrant mortgage banking sector for sustained housing delivery. Though access to housing is very readily available through mortgages in developed countries, it has continued to remain a major challenge in some emerging economies like Nigeria due to the poor legal and regulatory framework, high costs of titling, dearth of long term finance and absence of Foreclosure Laws. Currently the contribution of Mortgage Banking Sector to Nigeria's GDP is negligible at about 0.5% compared to 77% in the US, 80% in the UK, 50% in Hong Kong, 33% in Malaysia and about 45% in South Africa. There is no doubt that one of the foremost challenges of the Nigerian economy is that of developing a sustainable housing and mortgage finance system which befits a dynamic, competitive and equitable economic & financial system such as ours, and that would compare favourably with her peers.

Besides basic shelter, land and housing in the form of Real Estate are some of the greatest means to short and long term wealth creation; hence the economic development of Nigeria is dependent on evolution of a virile Mortgage Banking/Housing Finance Sector.

Over the last 20 years, the Mortgage Banking Sector has focused primarily on the creation of Affordable Housing as a means to empower Nigerians of all income groups with tradable/transferrable instruments for Wealth Creation. The reform/recapitalisation of the Mortgage Banking Sector, supported by creation of a Mortgage Refinance Company initiated by Mortgage Banking Association of Nigeria (MBAN) in collaboration with the Central Bank of Nigeria (CBN), World Bank/IFC, Primary Mortgage Banks and Commercial Banks is in progress with the aim to strengthen and create liquidity in the Sector. However much would still need to be done to improve the Legal and Regulatory Frameworks in order to achieve effective creation of Mortgages in Nigeria.

The Mortgage Banking/Housing Finance Sector would develop more rapidly with a reform of the land tenure system, since ultimately; Originators of Mortgages would rely on Land Titles as Collateral in the form of acceptable and tradable instruments.

In our efforts to create 500,000 Housing Units through Mortgages by Year 2016 therefore, we all have to work assiduously to ensure effective implementation taking the following into serious consideration:

- 1. Long-Term Funding/ Liquidity in the Mortgage Sector** - The various deposits currently in the portfolios of Primary Mortgage Banks (PMBs) are mostly on short-term basis thereby creating dearth of long-term funds that could stimulate housing finance delivery, through Primary Mortgage arrangements. Re-capitalisation of the Primary Mortgage Banks and the evolution of a Mortgage Refinance Company are initiatives towards creation of Liquidity in the Mortgage Banking Sector. The incorporation of a viable Mortgage Refinancing/Liquidity Vehicle is crucial to the development of an effective mortgage banking/housing finance sector in Nigeria, to complement the Primary Mortgage Banks that have the capacity to facilitate home-ownership through loan origination, but are hampered by the lack of long-term funds to extend mortgage loans on huge Economies of Scale.

The major goal of the MRC is to constantly replenish the liquidity expended by the Primary Mortgage Market for effective re-generation of mortgage loans. Continuous flow of liquidity from the MRC to the Primary Mortgage market as implemented in other Developed and Emerging markets is the most effective way to enhance the sustainable flow of mortgages to Nigerians, as an increase in Mortgage Funds would lead to an increase in Housing supply.

Secondary Mortgage Market Instruments such as Real Estate Investment Trusts (REITS) and Mortgage Backed Securities (MBS) would become veritable platforms to widen and deepen the Capital Market for supply of long term finance for Mortgages in Nigeria.

- 2. Enhancing NHF Contributions/Collection** – Concerted efforts would need to be made by the Federal Mortgage Bank of Nigeria (FMBN), Primary Mortgage Banks (PMBs) and Mortgage Banking Association of Nigeria (MBAN) to enhance collection of monthly contributions from more Nigerians to deepen

the National Housing Fund (NHF) Scheme in order to create more mortgages towards provision of affordable housing for Nigerians.

- 3. Syndication/Consortia/Club Arrangements-** It has become imperative for PMBs and Other Mortgage Originators in the Sector to work together to form Syndicate/Consortia/Club Arrangements to share risks and expand the scope of project execution for large scale Housing Estate Projects for Affordable Housing that the Mortgage Originators would otherwise not finance on their own.
- 4. Bridging The Affordability Gap in Home Ownership – Primary** Mortgage Originators/Lenders and Real Estate Developers would need to collaborate with Governments and Employers of Labour in Nigeria to work out modalities for bridging the affordability gap in Home-ownership financing at Optimal Interest rates. This would ensure that loanable funds for affordable housing are available to wider income groups.
- 5. Foreclosure Law –** To facilitate infusion of Capital to the Mortgage Banking/Housing Finance Sector and thereby create as well as entrench the system of free entry and free exit for the Existing and Potential Investors in the Sector, there is the critical need to fast-track the passage of the Foreclosure Bill into Law. This would facilitate the creation of Mortgages for Home -ownership Financing in the provision of Affordable Housing.
- 6. Reduction in High Costs of Titling –** The huge transaction costs and the cumbersome processes involved in registration of titles are also major impediments to perfection of legal titles and access to mortgages. If the costs to perfect titles are reduced, more people would be able to buy and effect registration of titles to their landed properties legitimately. Lagos State Government recently reduced the costs of registering titles in some of the Lagos State Housing Estates, which resulted into over 22,000 Home-owners that effected registration of titles to their properties, together with the attendant huge revenue generated from the venture. Such initiatives across the Country would lead to greater number of Nigerians obtaining legal titles to their landed properties and utilizing such mortgage transactions for creation of wealth.

7. **Automation of Mortgage Loan Processes/ New Building Systems** – There would be the dire need for continued improvement in the Automation of Mortgage Loan Processes and Procedures to improve efficiency and effectiveness towards creating more mortgages to achieve provision of affordable housing. This should also be complemented with the introduction of new building systems for production of Housing Estate Projects on large scale.
8. **Amendment to the Land Use Act 1978**– An identified primary impediment to the development of a virile mortgage banking/housing finance sector is the Land Use Act (LUA) 1978 because it affects every aspect that relates to the development and provision of affordable housing. There is the need to effect amendments to the Land Use Act in the main area of obtaining Governor’s Consent to Mortgage for every transaction and subsequently work towards removing the Act from the Constitution of the Federal Republic of Nigeria. This would facilitate easier amendments to the Act and make it easier/faster to obtain Titles towards Home Ownership by Nigerians through Mortgages and there would be Security of Tenure to Land, such that Land would become a veritable source of wealth creation for Nigerians.
9. **Reduction in Cost of Building Materials** – The Government needs to promote the reduction in costs and increase in the quality of Building Materials. If the materials necessary for the construction of housing units are less expensive, then more units would be created. Improving the quality of materials imported or produced locally would ensure that Housing units would last longer with minimal maintenance measures.

CONCLUSION

Considering that Mortgages are crucial to the provision of Affordable Housing on a large scale in Nigeria, the Mortgage Banking Association of Nigeria (MBAN) is working hard and collaborating with the Three Tiers of Government and other Key Stakeholders towards creating the enabling environment for the Sector to thrive.

It is however important that all players in the Built Environment should work together to create a dynamic Housing Industry with a view to increasing the Housing Units available to Nigerians through Large Scale Production on Economies of Scale and virile Mortgage Finance Arrangements.

MBAN therefore has the pleasure to share the aspiration of and be a Partner to ASO Savings and Loans Plc in its quest to provide 500,000 Housing Units for Nigerians via Effective Mortgage Arrangements by Year 2016, and wish you all the best in that endeavour.

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