



# CONNECTING THE HOUSING MARKET TO THE NIGERIAN CAPITAL MARKET (CRITICAL BUILDING BLOCKS)

A presentation by:

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AT THE

1<sup>ST</sup> ASO HOUSING EXHIBITION & CONFERENCE

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# DUNN LOREN MERRIFIELD

*Bespoke financing ... Discerning clientele*

## **Introduction**

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What is a Mortgage?

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Mortgage Amortisation Profile

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Positive Effects of Leverage

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Challenges

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Comparative Analysis

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What Can We Achieve?

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- Housing Finance has been one of the critical areas of infrastructure experiencing a major deficit in Nigeria
- It is currently conservatively estimated that the domestic mortgage market is around ₦70trillion Naira
- This excludes the current housing deficit which also runs into trillions of Naira

- This presentation addresses an alternative use of the National Housing Fund and Federal Mortgage Bank
- We see the correct implementation of this option achieving single digit interest rate financing for all Nigerians within a reasonable time frame (subject to inflation) and help citizen of Nigeria begin to create sustainable wealth via home ownership

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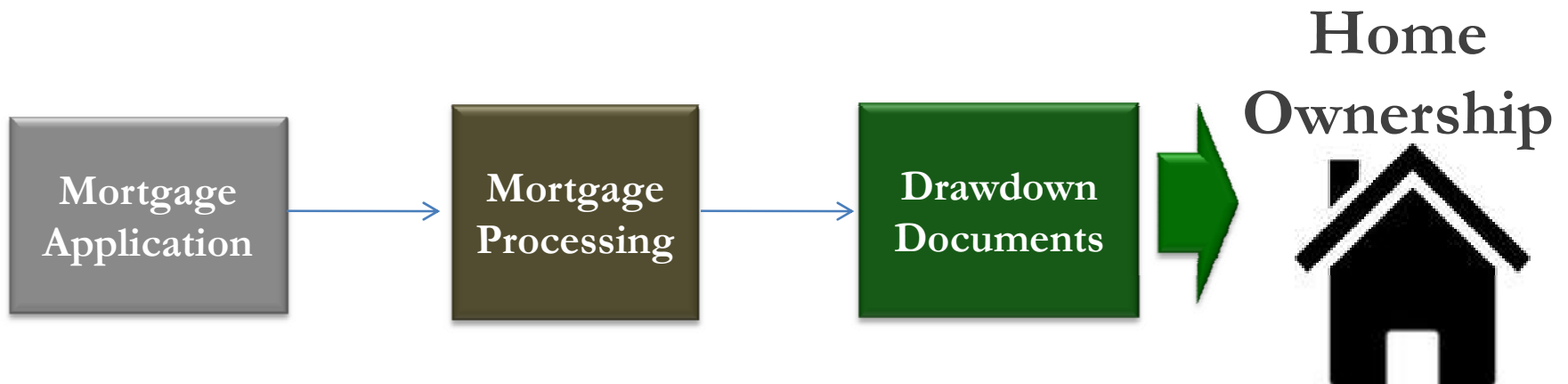
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What Can We Achieve?

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- A mortgage bond can simply be described as a long term borrowing by one or more individuals where the borrowing is secured by a lien, first or otherwise over a purchased property

## Simplified Mortgage Loan Process





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- For example, let us look at household with a combined income of ~~£~~1.6 million per annum; that is:

	Contribution	Income
Husband	60%	963,326.48
Wife	40%	642,217.65
		1,605,544.14

- Such a household should be able to afford a ~~N~~4.05 million mortgage loan, assuming a 10% equity contribution; the mechanics will be as follows:

Metric	Amt/Value
Mortgage Loan, N	4,050,000.00
Combined Annual Income, N	1,605,544.14
Combined Monthly Income, N	133,795.34
Amount required to service loan per month, , N	44,593.99
<b>Stipulated loan repayment to income ratio</b>	<b>33.33%</b>
<b>Actual loan to income repayment ratio</b>	<b>33.33%</b>

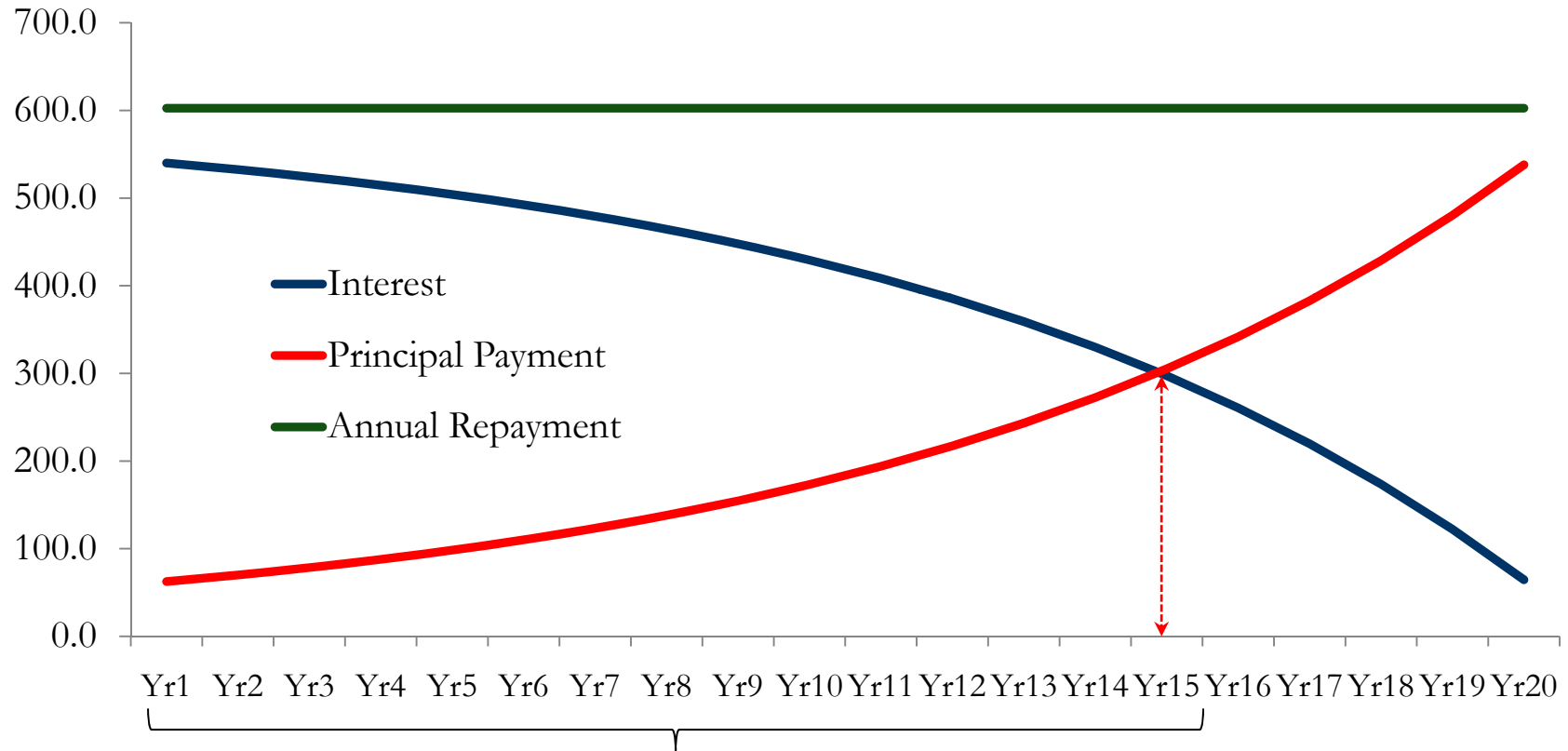
# CONNECTING THE HOUSING MARKET | Mortgage Amortisation Profile

Terms = Mortgage Loan: N4.05mn; Interest rate: 12%; Tenor: 20 years i.e. 240 months

Month	Balance, year end	Interest	Principal Payment	Monthly Repayment
1	4,045,906.01	40,500.00	4,093.99	44,593.99
2	4,041,771.08	40,459.06	4,134.93	44,593.99
3	4,037,594.81	40,417.71	4,176.28	44,593.99
4	4,033,376.77	40,375.95	4,218.04	44,593.99
5	4,029,116.54	40,333.77	4,260.22	44,593.99
6	4,024,813.72	40,291.17	4,302.82	44,593.99
7	4,020,467.87	40,248.14	4,345.85	44,593.99
8	4,016,078.56	40,204.68	4,389.31	44,593.99
9	4,011,645.36	40,160.79	4,433.20	44,593.99
10	4,007,167.82	40,116.45	4,477.53	44,593.99
231	381,992.89	4,223.63	40,370.36	44,593.99
232	341,218.83	3,819.93	40,774.06	44,593.99
233	300,037.03	3,412.19	41,181.80	44,593.99
234	258,443.41	3,000.37	41,593.62	44,593.99
235	216,433.86	2,584.43	42,009.55	44,593.99
236	174,004.21	2,164.34	42,429.65	44,593.99
237	131,150.26	1,740.04	42,853.95	44,593.99
238	87,867.77	1,311.50	43,282.49	44,593.99
239	44,152.46	878.68	43,715.31	44,593.99
240	0.00	441.52	44,152.46	44,593.99

- As shown above, principal repayments are negligible in the initial years.
- In the latter years interest repayments are negligible.
- All through, total annual repayment remain the same – assuming fixed rates.

### Principal & Interest Amortization Profile, ('000)



Financing Institution's profits are normally front-ended as the bulk of interest is paid within this period. As shown above, break-even point for borrower is at approximately 15 years.

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## Who goes home with the higher returns?

	Mortgage Finance	Cash Finance
Cost of Property	4,500,000.00	4,500,000.00
Borrowing	4,050,000.00	
Deposit	450,000.00	
Loan to Value	90%	
Interest payment, 20 years	6,794,181.18	
Proceeds from Disposal, Yr. 20	20,000,000.00	20,000,000.00



## Who goes home with the higher returns?

	Mortgage Finance	Cash Finance
Return on Equity	2835%	344%
Increase due to Leverage	2490%	

- An example of the benefits to home buyers of using mortgage financing and its effect on individual Return on Equity (RoE)
- Mortgage finance RoE is 2835% (annualized, 125% p.a.) compared to 344% (annualized, 17% p.a.) if financed by equity (cash).

Metric	Value
Cost of Property after final payment in yr. 20	4,500,000.00
Market Value of Property, Yr 20	30,579,545.22
<b>PV of Cost</b>	<b>1,046,061.89</b>
<b>PV of market value</b>	<b>3,170,082.53</b>
<b>Notional profit</b>	<b>2,124,020.64</b>

Whilst the present value of the cost of the property to the homeowner is ~~£~~1.04 million, there is also a ~~£~~2.12-million notional profit on the property from day 1.

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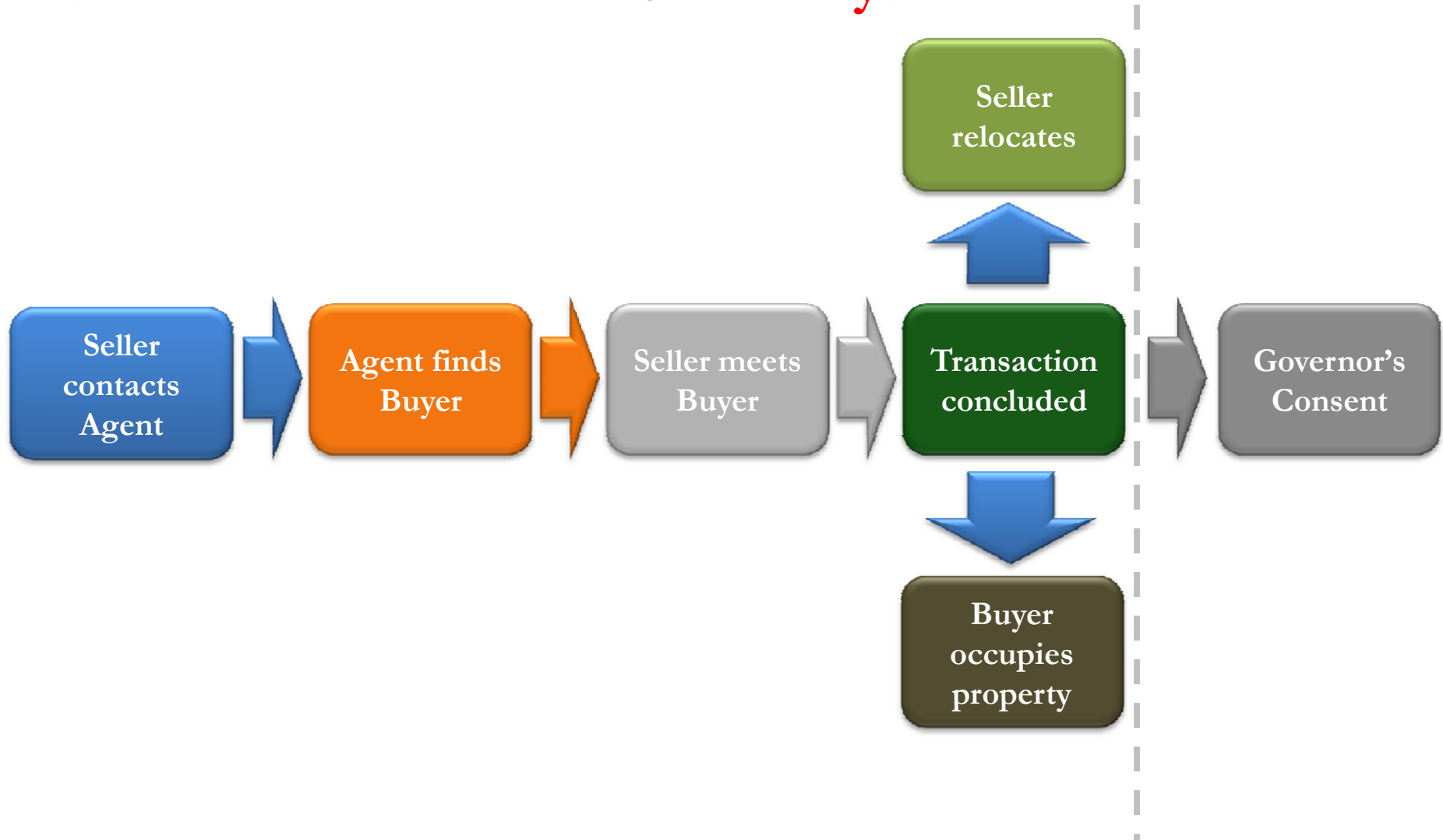
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## Governor's Consent: Necessary?



## Cost of registering title\* (assignments, sub-leases and power of attorney)

Consent fees:	8% of the assessed value of land, (16%) for state land (where C/O is <10 yrs)
Capital Gain Tax	2% of assessed value of land
Stamp Duty	2% of assessed value of land
Registration fee	3% of assessed value of land

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\* Lagos State

## **Cost of registering mortgage\***

Consent fees: 2% of the mortgage loan

Registration fee: 0.5% of the mortgage loan

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**\* Lagos State**

## Land Use Act

- In Nigeria, the dominant law governing land administration is the Land Use Act. It is an extra-constitutional piece of legislation.
- The law abolishes absolute ownership of land
- Places all land in respective state under the Governor to hold in trust for the people.



## **Land Use Act**

- Under the common law concept of trust, the trustee is answerable to the beneficiaries of the trust;
- Under the Land Use Act, the Governor is not answerable to anyone.
- It is now the common view that the Act should be excised from the constitution and amended to be mortgage/mortgage finance friendly.

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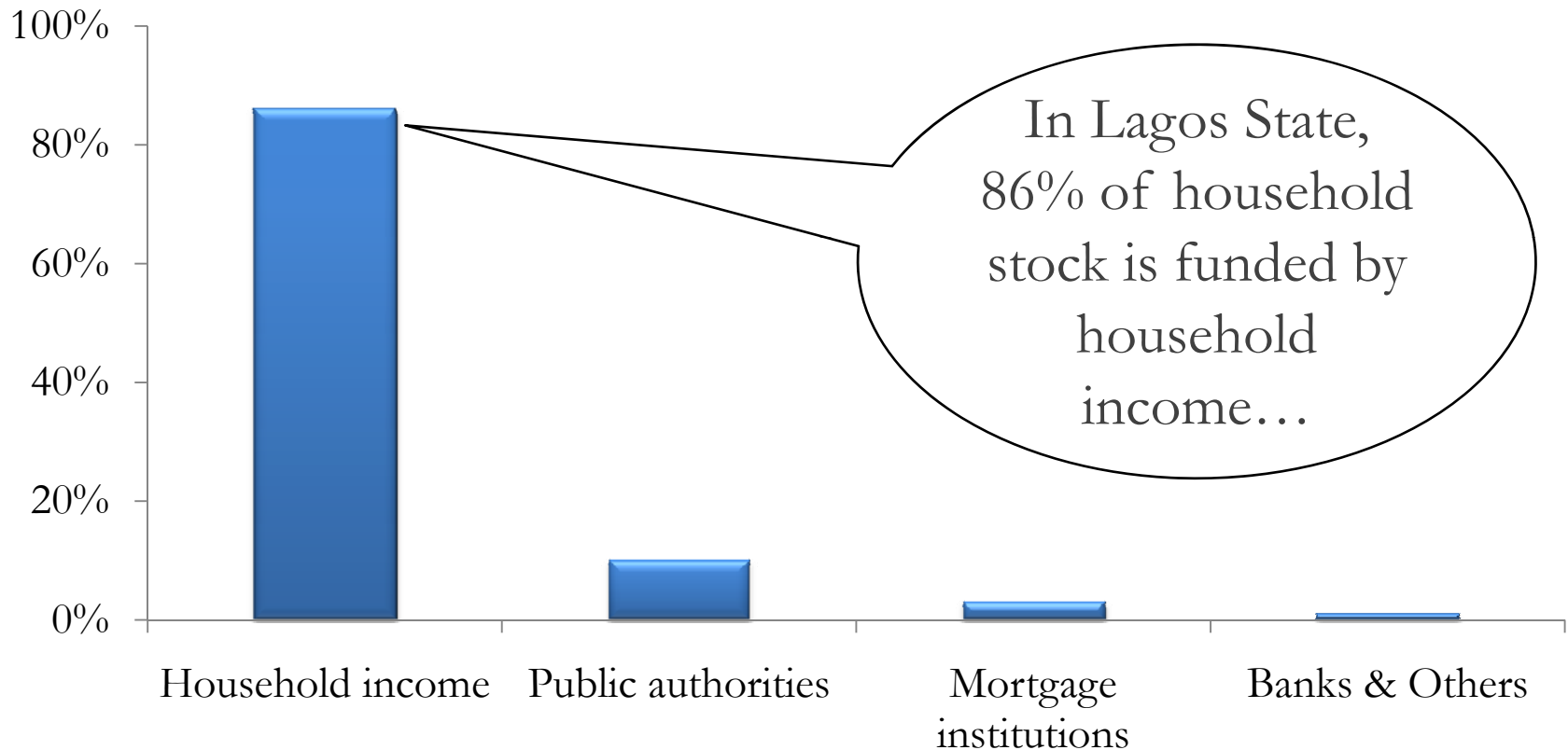
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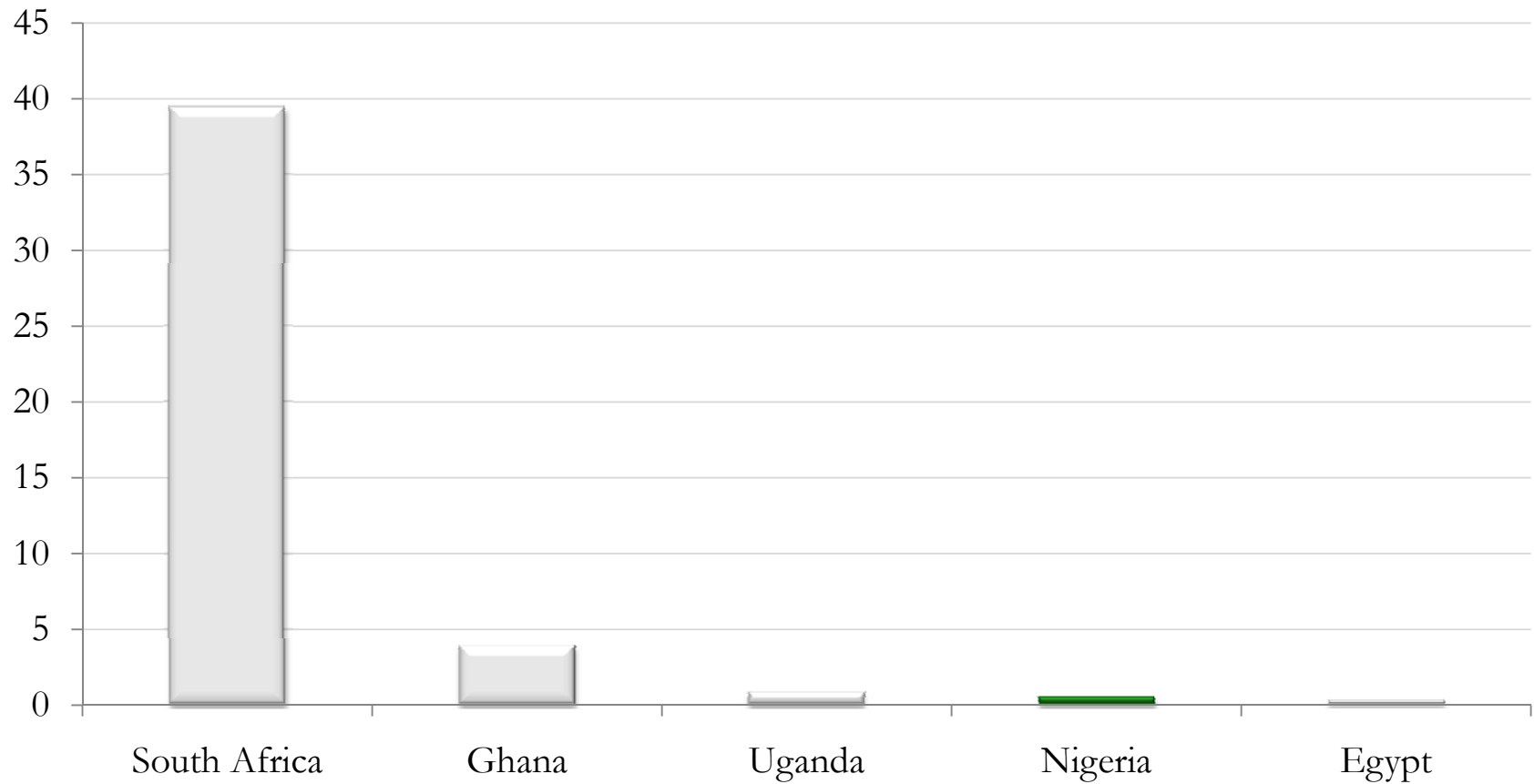
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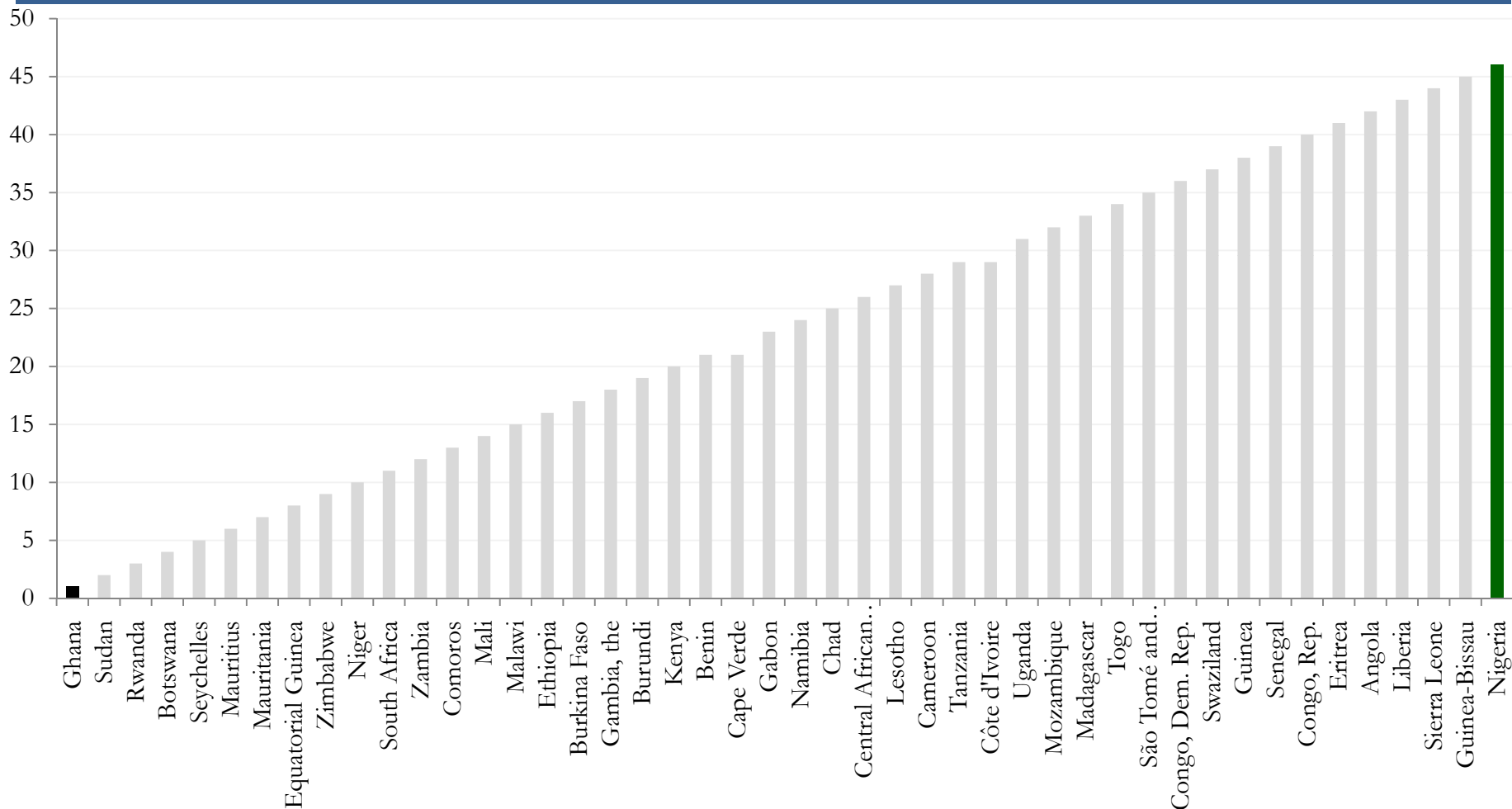
Lagos State: Housing finance & funding



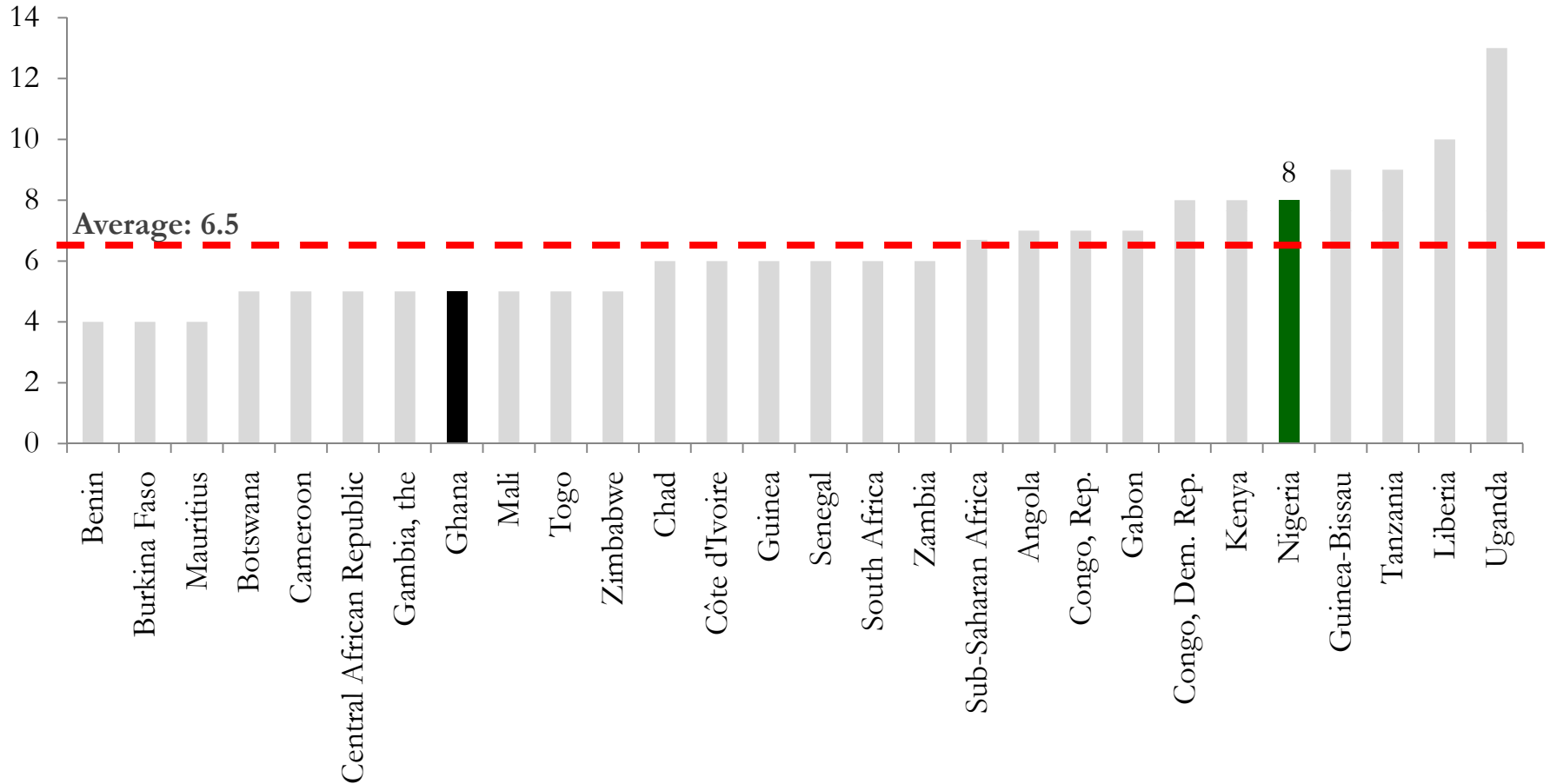
**Africa: Mortgage to GDP ratio;** source: [www.doingbusiness.org](http://www.doingbusiness.org) (World Bank Group)



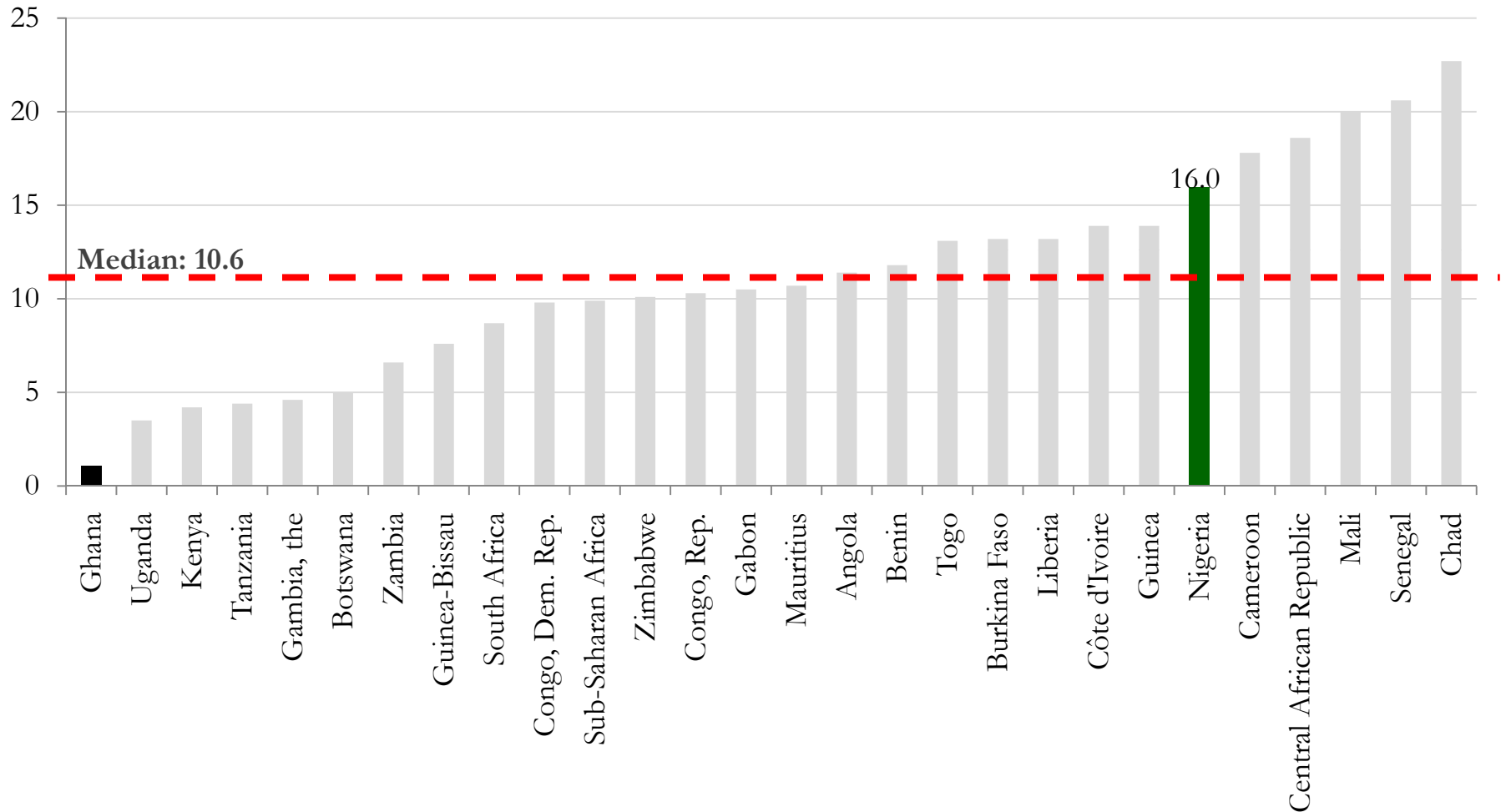
## Africa: Registering property ranking; source: www.doingbusiness.org (World Bank Group)



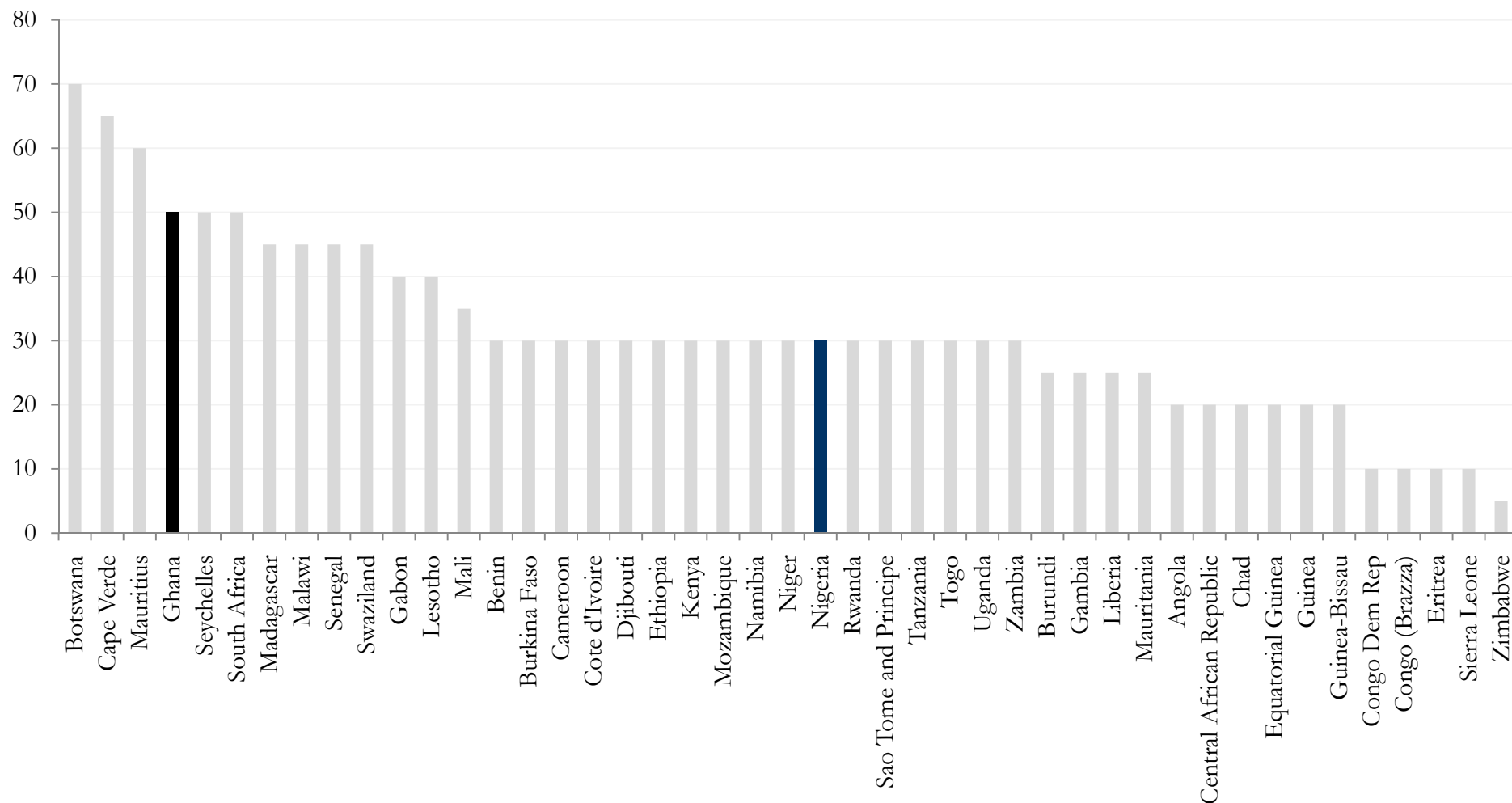
Africa: Procedures legally required to register property; source: www.doingbusiness.org (World Bank Group)



**Africa: Registration Cost as a % of property value;** source: [www.doingbusiness.org](http://www.doingbusiness.org) (World Bank Group)



## Africa: Property rights index; source: www.doingbusiness.org (World Bank Group)





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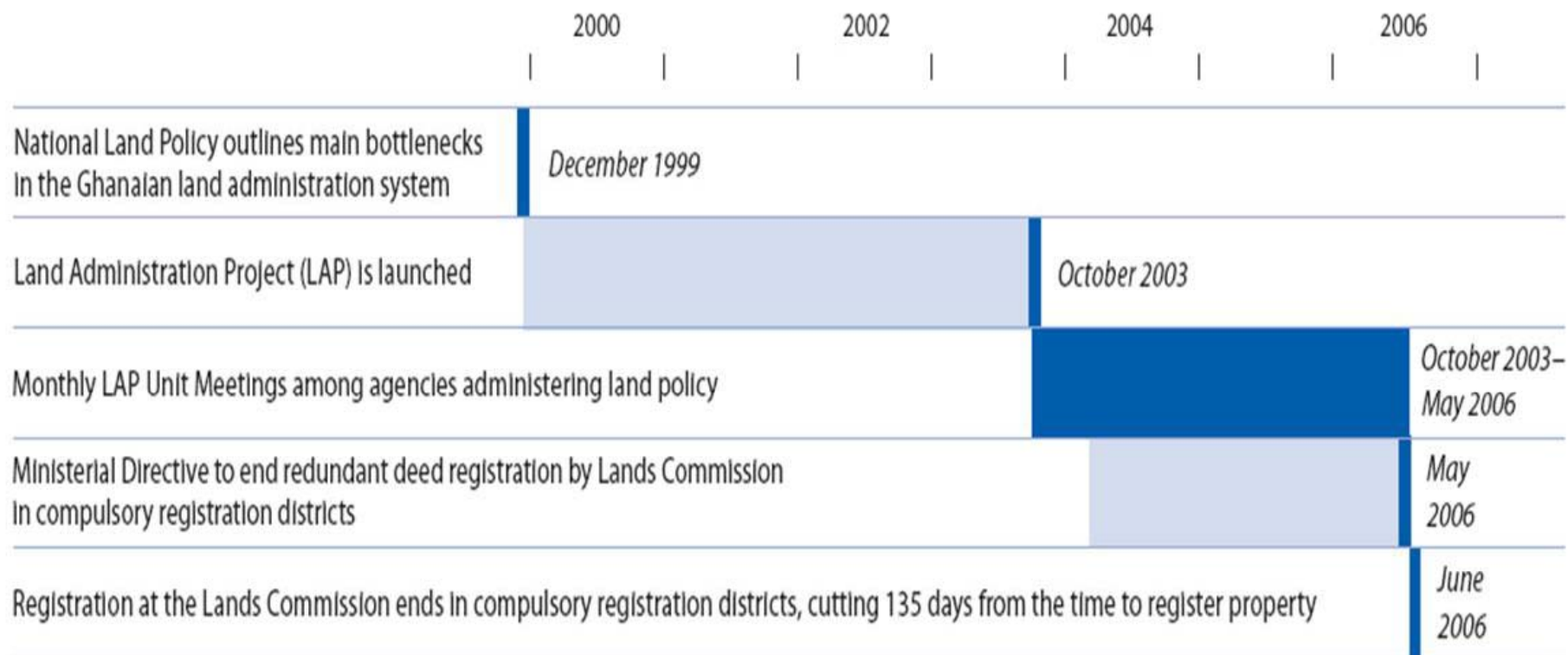
## Ghana: When Enough is Enough

- Since independence the citizens of Ghana had dealt with a dysfunctional land administration system i.e. ...
- ... an inefficient state land bureaucracy and customary tenure.
- Long and expensive procedures taking up to 5 years and involving 6 different agencies

## Ghana: When Enough is Enough

- The turning point was the Lands, Forestry, and Mines Ministry's Land Administration Program, which cut the time to register property to 34 days.

### Timeline of reforming property registration in Ghana



## **Ghana: When Enough is Enough**

- The results were impressive: the 135 unnecessary days were eliminated
- Queues at the Lands Commission disappeared
- Within 34 days anyone could complete a property transaction in a compulsory district.

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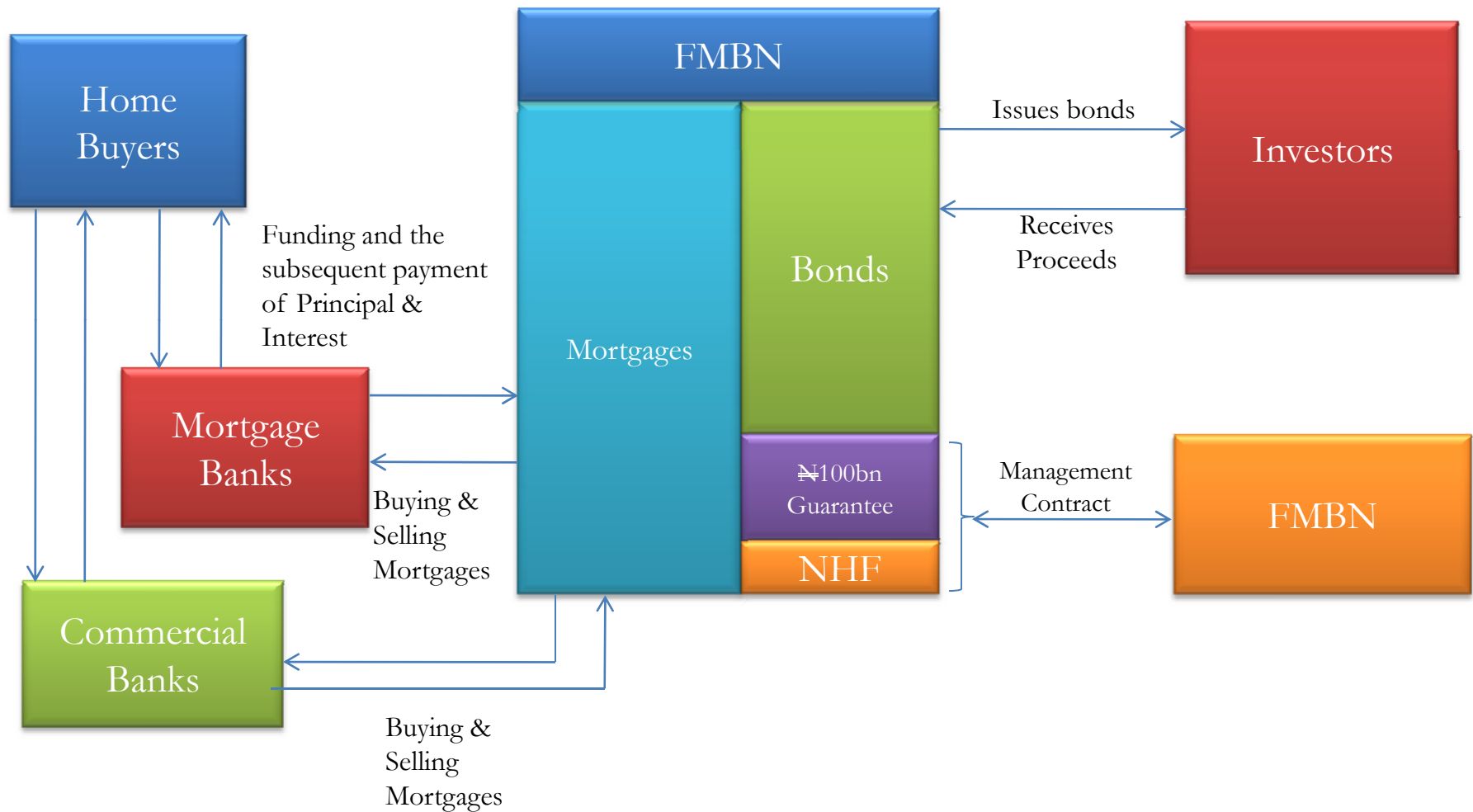
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## CONNECTING THE HOUSING MARKET | Nigeria: The Way Forward



## Summary of the Concept

- The idea is to create a sustainable financing medium for housing in Nigeria
- Homes could be financed using this structure at initially 200 – 300bps > FGN 10 – 20yr Bonds
- Commercial Banks and Primary Mortgage Institutions will originate and manage the loans on an on-going basis



## **Summary of the Concept**

- The FMBN then repackages the income to finance the issuance of bonds, financing them at close to sovereign bond rates
- Buyers of the bonds are expected to be predominately Pension Funds who by definition require such long term assets on their books

## **Summary of the Concept**

- In addition, we expect mutual funds, insurance companies and other investment companies to be heavy buyers of these bonds

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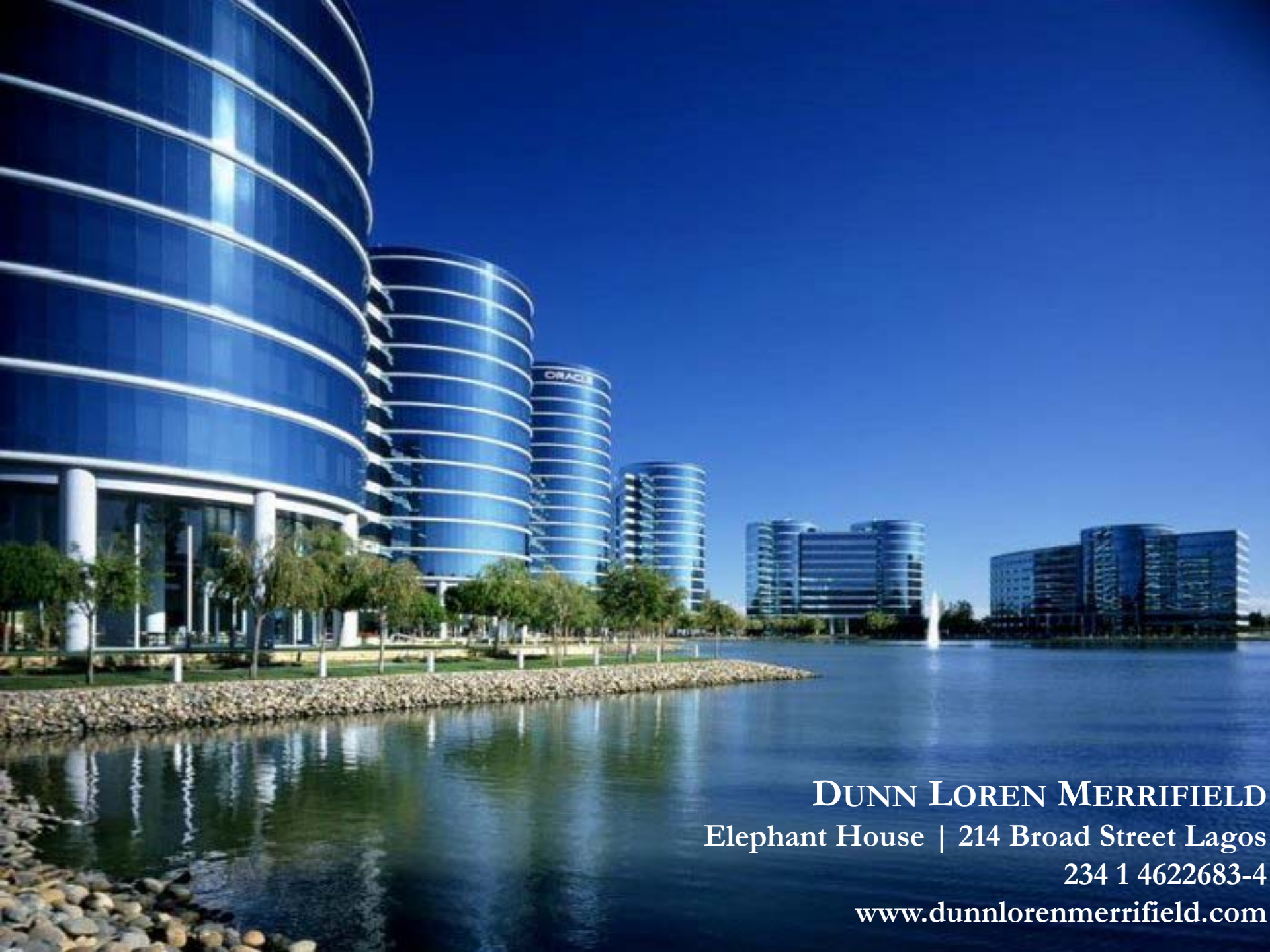
- We expect that by implementing this structure, we may be able to achieve single digit mortgages for all eligible Nigerians with 2 – 3yrs
- A viable housing market catering to all tiers of working Nigerians
- Linking the Nigerian public to domestic interest rates

- Creating viable assets for investment companies, and even banks
- Wealth creation for the Nation by giving every able Nigerian his or her own home
- Serious job creation within the construction, property development and related industries

- Multiplier effects of job creation in these industries has proved to add significantly to the national GDPs of countries

End of Presentation

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