Mortgage Financing for Housing Delivery in Nigeria: The Governmental Role in Development of an Effective Mortgage Market

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ABSTRACT

This paper is an investigation into the mortgage systems for financing housing delivery in Nigeria, with particular reference to the role of government in the development of an effective mortgage market. The paper commences with a definition of terms, especially, mortgage, primary mortgage institutions, secondary market and secondary mortgage market. It then proceeds to a description of the background and context of the emergence of mortgage financing. This paper progresses to an overview of housing finance arrangements in Nigeria including an elaboration of the financing operations of the mortgage finance institutions. The paper provides an elucidation of the role of government in the development of an effective mortgage market in Nigeria. It then highlights the performance of the federal Mortgage Bank of Nigeria (FMBN) in housing delivery with an overview of the Bank's establishment, objective and mandate, and achievements (housing estates funded by FMBN); and new innovations such as the introduction of E-collection for National Housing Fund contributions, NHF Informal Sector Cooperative Housing Loan Scheme and the formation of new partnerships with key institutions like Nigerian Airforce, Nigerian Navy, Nigeria police, among others, with a view to financing the building of staff residential estates through the NHF scheme.

This paper then makes policy recommendations including conclusions on the mortgage financing for housing delivery in Nigeria.

The recommendations highlight the need for new policies that will facilitate the growth of the housing sector, especially in the area of policy formulation and implementation and removal of bureaucracy. The paper also reaches the conclusion that given the primacy of housing as second in the hierarchy of human needs, there still exists the necessity to continually address the challenges of the housing finance sector such as the dearth of long term financial instruments, absence of mortgages liquidity, weak capital base, inadequate primary mortgage institutions, weak corporate governance, inadequate skilled labour and high cost of building materials.

Keywords: Mortgage Finance, Primary Mortgage Institutions, Housing Finance Arrangements, Effective Mortgage Market, Mortgage Liquidity.

MORTGAGE FINANCING FOR HOUSING DELIVERY IN NIGERIA: THE GOVERNMENTAL ROLE IN THE DEVELOPMENT OF AN EFFECTIVE MORTGAGE MARKET.

INTRODUCTION

Housing (shelter) has universal acceptability in ranking second after food among man's most basic needs. Unfortunately, shortage of housing stock both in number, quality and functionality abounds virtually in every country, especially in the developing and third world countries. The causes of this dearth of housing stock are numerous and vary from country to country. But one cause, expensive finance to fund home purchase or construction, is found to be present in all countries, albeit in varying degrees of exacerbation. Understandably, the high cost of housing construction relative to the average incomes of prospective homeowners has made borrowing from housing finance institutions the 'sine qua non' for people who find themselves in such a bind. Hence, the necessity for the evolution of a mortgage finance system; especially in Nigeria's socio-economic circumstances of economic deregulation and multi-sectoral reforms.

DEFINITION OF TERMS

It is pertinent at this juncture to define the operative words/phrases for this discussion:

(i) Mortgage: A mortgage is a written instrument evidencing an indebtedness secured on real property.
(ii) Primary Mortgage Institutions: These are retail or primary mortgage lenders as they operate at primary level of the housing finance market; originate, service and fund mortgage loans.
(iii) Secondary Market: A secondary market is any market that deals in the resale of existing commodities.
(iv) Secondary Mortgage Market: This is a market where perfected mortgages are traded.

THE EMERGENCE OF MORTGAGE FINANCING

Experience has shown that as a country scales higher on the rungs of the ladder of economic development, demand for housing, especially for owner-occupied units increases. The demand for housing credit often outstrips the supply, as available loanable funds cannot adequately be utilized to meet the mortgage needs of the teeming prospective borrowers who deserve assistance.

The fact that it is financially very tasking for a prospective homeowner to fund his aspirations wholly from his own resources has always been recognized and in some traditional African societies predates the advent of the European colonialists. For instance, in many communities of South-Eastern Nigeria, when it was time for a young man to start his own homestead, what he needed to do was to invite members of his Age Grade to a sumptuous menu in the cause of which he tabled his intention.

Thereafter his age mates were duty bound to assist him in gathering the traditional building materials and constructing his new abode provided such aspirant was not an indolent layabout. Of course, he had the responsibility of ensuring that his helpmates were treated to a sumptuous menu on any day they had to forgo their individual responsibilities to his sole benefit. Today, there are various financial institutions involved in home finance. There are those who mobilize savings form households and enterprises and make loans to mortgagors. Because they take deposits from individuals, they are called financial intermediaries. Such institutions include commercial banks, savings and loans association (Primary Mortgages Institutions in Nigeria or Building Societies in the United Kingdom), Mutual Trust Banks, etc. These are retail or primary mortgage lenders, as they operate at primary level of the housing finance market. The major characteristic of primary market operators is that they originate service and fund mortgage loans.

There are also other categories of financial institutions that tap capital funding to buy mortgages already created by operators in the primary mortgage market. These institutions are said to be operating in the secondary level of the housing finance market. Secondary mortgage market as already defined is that sector of the housing finance where existing (perfected) mortgages, i.e., mortgages created in the primary mortgage market are bought and sold.

OVERVIEW OF HOUSING FINANCE ARRANGEMENTS IN NIGERIA

According to Sanusi (2003), the major housing finance arrangements in Nigeria are namely, State/Municipal Government Financing, Federal Mortgage Bank of Nigeria (FMBN), Federal Mortgage Finance Limited (FMFL), Primary Mortgage Institutions (PMls), National Housing Fund (NHF), Insurance Companies' Funds, Specialized Institutions and Credit Policies:

(i) **State/Municipal Government Financing:** State and Municipal Governments have also been known to be involved in mortgage financing, albeit, on a limited scale. The sources of such fund usually include budgetary allocation, complemented with facilities from development institutions. Such funds are often channelled through the states' development finance institutions such as the Housing Corporations or Investment and Property Development Corporations for on lending to individuals for residential building construction. Indeed, the erstwhile regional governments of the 1960s set up the regional housing corporations, with clear mandate to provide long term credit for housing development.

(ii) **Federal Mortgage Bank of Nigeria (FMBN):** The FMBN commenced operations in 1978, following the promulgation of the FMBN Decree no. 7 of January, 1977 as a direct federal government intervention to accelerate its housing delivery programme. The FMBN is expected to expand and coordinate mortgage lending on a nation-wide basis, using resources from deposits mobilized and equity contributions by the Federal Government and CBN at rates of interest below the market rates. By mid-1980s, the FMBN was the only mortgage institution in Nigeria. However, it is arguable if this mandate has been satisfactorily performed to date.

(iii) **The Federal Mortgage Finance Limited (FMFL):** The FMFL was established in 1993 to carry out the retail aspect of mortgage financing and provide credible and responsive housing finance services, while FMBN became the nation's apex mortgage lending agency. The FMFL is expected to provide long term credit facilities to mortgage institutions in Nigeria to enable them grant comparable facilities to individuals desiring to acquire houses of their own; encourage and promote the emergence and growth of primary mortgage institutions to serve the need of housing delivery in all parts of Nigeria; and to collect, manage and administer contributions to the National Housing Fund (NHF) in accordance with the provision of the NHF Decree No.3 of 1992.

(iv) **Primary Mortgage Institutions (PMIs):** The promulgation of the Mortgage Institutions Decree No. 53 of 1989 provided the regulatory framework for the establishment and operation of Primary Mortgage Institutions (PMI) by private entrepreneurs. The FMBN under the decree became the apex institution, which regulates primary mortgage institutions and was empowered to license the PMIs as second-tier housing finance institutions.

The PMIs, under the decree were to mobilize savings from the public and grant housing loans to individuals, while the FMBN mobilizes capital funds for the primary mortgage institution. The PMIs were expected to enhance private sector participation in housing finance.

(v) **National Housing Fund (NHF):** The NHF was established subsequent to the promulgation of the National Housing Fund Decree No. 3 of 1992 as a mandatory contributory scheme to mobilize cheap and long-term funds for housing credits. The Fund represented the financial component of the new National Housing Policy, which was adopted in 1991.

The NHF is aimed at encouraging a multiplication of housing finance institutions, enhancing mobilization and growth of long term funds and making loans· affordable to more borrowers. Other objectives of the fund include: ensuring constant supply of loans to Nigerians for the purpose of building, purchasing and improvement of residential houses, providing incentives for the capital market to invest in property development, encouraging the development of specific programmes that would ensure effective financing of housing development and to provide long term loans to mortgage institutions for on-lending to contributors to the fund.

It is also expected to insulate the housing finance system from the fluctuations that had characterized its past reliance on government intervention. This is consistent with the practice in other countries especially, as sustainable housing finance operations require the mobilization of private sector. Generally, the strategies for effective mobilization of funds for housing finance in Nigeria had evolved around three areas: Voluntary schemes, Mandatory schemes, Government budgetary allocation and financial transfers. Under the voluntary scheme, mobilization is done as follows:

(a) Private individuals: Government encourages individuals to save to build or buy their houses at low interest rates. Under this scheme, the PMIs are to mobilize savings and deposits from the public like the commercial banks. The success of the PMIs in the competitive financial market therefore depends on their management competence.

(b)· Government introduces appropriate fiscal measures to protect the assets and liabilities of individuals, and stabilize individual deposit through contractual savings schemes.

(c) The CBN, through its monetary and financial policies, encourages deposit money banks to set up subsidiaries that would specialize in primary mortgage activities.

Under the mandatory scheme, we have.

(a) Mandatory contributions of Nigerian workers in both the public and private sectors. Participation in the scheme is required for all workers earning N3,000.00 per annum or more. The participants contribute 2.5 percent of their monthly salaries to the housing fund at an interest rate of 4 per cent to each savings/contribution made.

(b) Contributions of 10 per cent of banks' loans and advances to the Fund at an interest rate of 1 per cent above the rate on current account. This is subsequently transferred to the FMBN for the housing sector through a properly devised system, thereby liberating deposit money banks from the burden of mortgage loans.

(c) Contributions by the Nigerian Social Insurance Trust Fund (NSTIF) and the insurance companies, which are expected to invest a minimum of 20 per cent of their nonlife funds and 40 per cent of their life funds in real estate development, or which not less than 50 per cent must be channeled through FMBN, at an interest rate not exceeding 4 percent. Under this arrangement, government now relaxes the existing restrictive provisions as contained in the insurance Decree No. 59 of 1976 and the Trustee Investment Act No. 13 of 1962 so as to allow the insurance industry and pension funds to invest huge resources in housing development.

Under the Government budgetary allocation and financial transfers, budgetary allocation is made at all levels of government to the housing sector to finance low income housing schemes. In this respect, the federal, state and local governments make direct budgetary allocation of a sum not below 2.5 percent of their revenue to the housing scheme. The Federal Government also expanded the Infrastructure Development Fund (IDF) from which the State and Local Governments can borrow to provide basic infrastructural facilities.

Cooperative societies pool individual members' resources together from where soft loans are advanced to their members. They have become very popular especially in land purchase, particularly in semi-urban areas. Cooperative societies are also known to be involved in the provision of credit for housing to their members.

(vi) Insurance Companies' Funds:
Insurance companies are equally well-suited to providing housing finance because of their stable base of funding and the long-term nature of their liabilities. They are therefore not only fund mobilizers, but also important source of capital fund for the economy. Funds from life insurance companies also provide resources for the financing of the housing sector in Nigeria. The structure of the loans and advances of the sector indicate that the insurance sector has been active in mortgage financing.

(vii) Specialized Institutions: The main competing institutions with banks and insurance companies in the area of housing have been specialized institutions such as semi-government agencies, mortgage banks and building societies.

(viii) Credit Policies: In recognition of the importance of the housing sector, and considering that banks have ready access to cheap sources of funds through retail deposits as well as the infrastructure to process real estate loans efficiently and the skills to manage the risks involved, the Central Bank of Nigeria, CBN, has encouraged banks to support the development of the housing sector in Nigeria. In particular, the CBN has through its credit policies, required the erstwhile commercial and merchant banks to allocate a stipulated minimum proportion of their credit to the housing/construction sector. In the 1979/80 fiscal year for instance, the minimum stipulated for banks was five percent of total loans and advances. The share was raised to six percent in 1980 and thirteen percent in 1982.

Where banks failed to meet the stipulated target, such shortfalls were deducted at source from the defaulting bank's deposit with the CBN and passed on to the housing/construction sector through the Federal Mortgage Bank of Nigeria, FMBN. The financial sector was, however, liberalized in 1993. With the deregulation, the preferred status accorded to the housing and construction sector was discontinued.

THE ROLE OF GOVERNMENT IN THE DEVELOPMENT OF AN EFFECTIVE MORTGAGE MARKET

Housing finance reform as an integral component of economic and social sector reform has engaged the attention of the present civilian government since it came to power in 1999. The unsatisfactory performance of the housing finance system and institutions is strongly linked to the problem of accessibility to land for development and inability to provide low cost finance that meets the housing need of the low – income group.

The 2002 government white paper on the report of the Presidential Committee on Urban Development and Housing ascribed two distinct roles to the government. These are (1) to encourage financial innovations that would facilitate the provision of funds for housing development on financially viable basis and (2) to facilitate the development of specific programmes that would ensure effective financing of low and medium income housing in Nigeria (Soludo, 2007).

According to Soludo (2007), Nigerian population estimated to be about 30 million in 1952 has grown at average annual rate of 2.8 percent to over 120 million in 2000 with urban population growing from 20 percent at independence in 1960 to the present level of about 43 percent in 2005. Currently, it is estimated that over 60 percent of its 130 million population are required to be housed while homeownership rate is put at not more than 25 percent of the total population. This translates to over 78 million people that are either not housed or living in unbefitting places such as slums, market places, motor parks etc. Most of the under-housed are the poor and the low income, some of whom migrated to urban centres in search of elusive jobs and better living conditions. With an assumption of an average low-income family of six, Nigeria's current demand for mass housing is estimated to be about 13 million housing units.

According to Fortune Ebie (2009), consequent on the decision of the Federal Executive Council and Mr. President's approval and on Thursday, 31st August, 2000, the Federal Ministry of Works and Housing inaugurated a committee to look and articulate the process and modalities of the merger of the Federal Mortgage Finance Limited (FMFL), and the Federal Mortgage Bank of Nigeria (FMBN). The Committee submitted its Report on 30th November, 2000. Government White paper on the Report of the Committee on the Merger of the Federal Mortgage Finance Limited and Federal Mortgage Bank of Nigeria was issued in November, 2002.

Among all other recommendations of the Committee, is that it did not recommend a merger of the two organizations. The final result of the recommendation of the Committee and the Federal Government White Paper on same was the Liquidation of FMFL and the restructuring of FMBN. The Committee did not recommend a merger and the modalities as to the work of the Implementation Agency was to be the responsibility of the Secretary to the Government of the Federation.

Against the foregoing background, this paper reviews the activities of the Primary Mortgage Institutions (PMIs), highlights the critical areas for mortgage reforms through enhanced capitalization and institutional strengthening strategies and outlines the roles of government and other stakeholders in the development of a robust mortgage finance system in Nigeria.

Overview of Primary Mortgage Institutions (PMIs) activities in Nigeria

The PMIs, established by the Mortgage Institutions Act No. 53 of 1989 (as amended) were created to facilitate housing delivery in Nigeria through the institution of a private sector arrangement to supplant the public sector which had proved ineffective over the years in that respect. At inception, the regulation and supervision of the PMIs devolved on the Federal Mortgage Bank of Nigeria (FMBN). The supervision/regulation of the subsector was, however, assigned to the Central Bank of Nigeria (CBN) by the Federal Government's budget pronouncement in 1997 after it has witnessed years of serious instability and distress. Consequently, the CBN Act No. 24 of 1991 and the Banks and Other Financial Institutions Act (BOFIA) No. 25 of 1991 as amended gave legal backing to the new supervisor arrangement.

In line with that development, the CBN issued revised guidelines for PMIs in 2000, which redefined and expanded the scope of mortgage business activities. In order to curtail further systemic distress in the subsector, 115 out of the 195 PMIs that were handed over to the CBN by the FMBN in 1999, were listed as terminally distressed due to various regulatory breaches and operational weaknesses. Consequently, in September 2003, 97 PMIs out of the 115 PMIs had their licences revoked, five were restructured while 13 others were granted additional time to consummate their recapitalisation plan. Between 2000 and 2005, five PMIs were licenced, this bringing the number of those currently operating to 90 as at December 2005. Since the taking over of their supervision and regulation, the CBN had expanded enormous regulatory resources at repositioning the sub-sector and curbing the distress syndrome through various measures including capital verification and confirmation of their existence, capacity building, improved supervision and institutional strengthening through close collaboration with Mortgage Banking Association of Nigerian (MBAN), the umbrella association and the establishment of Committee of Mortgage Institutions of Nigeria (COMIN) amongst others.

Although, there has been a low or non-incidence of failure in the sub-sector since the assumption of regulatory ad supervisory responsibility by the CBN, there still exists a wide gap between the current performance level and the original mandate of the PMIs. The level of capitalization, scope of operations, and volume of core mortgage activities as well as the capacity of their management and staff have remained low. As of December 2005, out of 90 PMIs in operation, only 43 were confirmed to have met the current statutory minimum paid-up capital of ₦100 million. The aggregate shareholders' funds in the sub-sector stood at ₦18.1 billion, while total deposit liabilities and loans and advances were ₦47.5 billion and ₦28.5 billion, respectively. More alarming is the fact that only 15 out of the 70 PMIs that rendered returns in December 2005 met the prescribed minimum mortgage assets to total assets ratio of 30 percent, which reveals the sub-sector's unsatisfactory performance in their core mortgage operations. Part of the reasons that could be attributed to this poor performance is largely due to paucity of long-term fund available to these institutions, with which they could create mortgage assets.

As at December, 2005, only a paltry sum of ₦19 billion has so far been mobilized through the National Housing Found (NHF) which was established in 1992 under the management of the Federal Mortgage Bank of Nigeria, as a contributory scheme to address the observed gaps in housing delivery in the country. The purpose of the NHF is to provide cheaper source of fund for mortgage loans to the Nigerian workers particularly those in the 'low middle' income group to become home owners. Also as at December, 2005, a total of 5250 mortgage loans/ beneficiaries were originated through the PMIs and 11,216 housing units were financed through estate developers with a combined disbursement of N13.2 billion or 69 percent of the N19 billion mobilized under NHF scheme. Consequently, the fund has failed to make the desired impact on housing delivery. In addition, the production option of "blending of the NHF with mortgage securitization" proposed by the Presidential Technical Committee on Housing and Urban Development, is based on the assumption that the PMIs have the resources to create loans before such loans could be taken by the PMIs. There is, therefore, the need for the PMIs, to be adequately capitalized, for this option to be practicable.

Also, the inability of the existing PMIs to meet the required minimum capitalization has been attributed to the age-long phenomenon of hold-tight attitude of the Nigerian investors, even in the face of obvious inadequacies. In such circumstances, mergers and acquisitions or the introduction of core-investors is seldom embraced as an option.

Review of Existing Legal/Institutional Framework

The Federal Government through the Presidential Technical Committee on Housing and Urban Development has taken appropriate steps to review existing laws that have been identified to constitute some encumbrances to the ongoing reforms in the housing sector. The affected laws are:

- The National Housing Fund Act, 1992
- The Mortgage Institutions Act (PMIs),1989
- The Federal Mortgage Bank of Nigeria Act,1993
- The Trustee Investment Act,1962
- The Nigeria Social Insurance Trust Act,1993
- The Nigeria Insurance Act, 2002
- The Investments and Securities Act,1999
- The Federal Housing Authority Act,1990
- The Land Use Act, 1978

The amendments to the National Housing Fund, Federal Mortgage Bank of Nigeria and Mortgage Institutions Act received inputs from the CBN before they were presented to the National Assembly Committees on Housing and Urban Development and it is hoped that the amendments when passed into law would strengthen and promote a private sector-led housing market.

Review of housing finance practices in other jurisdictions

A review of housing finance system in the developed economies in Europe and America, and those of the emerging markets of Thailand, India, Mexico Columbia, Argentina, South Africa and Ghana revealed certain commodities of index that aided the development of housing sector of these economies. The phenomenal growth of the housing finance system in these countries has in turn translated to improved living standards of their citizenry as measured by the fundamental variables such as the type of institutions, percentage of outstanding mortgage loans as proportion to the gross domestic product (GDP) and average per capita income.

These indices are summarised below:

- Efficient secondary mortgage market properly linked with capital market
- Availability of a well-structured mortgage/credit, insurance/credit guarantee with various models for risks transfer and risk mitigation.
- Efficient system of land registration to facilitate titling, liens, transfers etc.
- Enforceable and efficient foreclosure procedures for lenders
- Availability of dependable credit information systems (Credit Bureau)
- Professional real estate intermediaries, property database.
- Sound regulatory framework
- Competitive and innovating private sector development with different models.
- Smarter subsidies and incentives by the government linked to housing finance targeted to the low income group with a clear exit procedure or sunset date.
- Innovative products such as housing micro-finance and residential leasing products.

Nigerian housing sector today faces some challenges that must be tackled to make the system provide the required services that would accelerate economic development witnessed in other emerging economies.

The impact of the operations of the PMIs in Nigeria has been below expectation as the institutions lacked the wherewithal to mobilize requisite resources for commitment towards the fulfilment of their objectives. The consequence is that their impact remains unfelt by the populace as indicated by the low percentage of mortgage loans to GDP, which stood at 0.12 percent as at end of 2005 compared with what obtained in other counties as stated below:

USA – 63 percent; UK – 64 percent; Germany – 55 percent; Thailand – 15 percent; South Africa - 20 percent; India – 5 percent and Ghana – 3 percent.

The Objectives and Strategies of re-positioning Primary Mortgage Institutions (PMIs)

The objectives of re-positioning the PMI sub-sector include:

- Enhancement of housing finance process to meet the challenges of the housing deficit gap, particularly to low income group in Nigeria.
- Strategically re-position and strengthen the primary mortgage institutions sub-sector as a vehicle for housing and homeownership delivery in Nigeria in consonance with the dictates of the National Housing Policy and mortgage business.
- Promoting the development of efficient secondary mortgage market by strengthening the capital base of mortgage originating institutions.
- Promoting rural housing programme through market support incentives for asset collateralization through mortgage originations to make finance available for the development of Micro, Small and Medium Enterprises (MSMEs).

Strategies for Achieving Reform Objectives

- Adequate capitalisation of PMIs to foster confidence and re-position the sub-sector for efficient dispensation of its responsibilities.
- Capacity building for the sub-sector thereby facilitating the inculcation of professionalism through training and certification of the Executive Management team and loan/mortgage officers of PMIs.
- Evolvement of a legal and regulatory framework conducive for the operation of mortgage business.
- Promotion and support for the participation of institutional investors such as pension fund administrators (PFAs) and insurance companies in housing finance through the PMI.
- Economic empowerment of the low-income group through innovative products that unlock savings tied up in unregistered properties for SME finance.
- Promotion of the development of dependable property registration and credit information system.

Institutional Framework

The areas of Institutional reforms that should be quickly addressed are:

- The need to promote the participation of institutional investors such as pension fund administrators (PFAs) and insurance companies.
- The Strengthening of the Mortgage Banking Association of Nigeria (MBAN). The national umbrella association of the operators to adequately monitor the dispensation of self-regulation as canvassed for in the Nigerian financial system. This will complement the supervisory effort of the CBN.
- CBN to encourage professional charter and certification in the housing sector in the bid to encourage training and capacity building appropriate for mortgage operation and regulation.

Policy Measures and Instruments for the Reform of the PMI subsector:

- Phased re-capitalisation of PMIs between January 2007 and December 2010 with emphasis on the actual injection of fresh funds to provide the needed liquidity for the sub-sector.
- Promotion of professionalism in PMI operation through the institution of professional training and certification process.
- Encouragement of mergers and acquisition in the PMI subsector.
- Enforcement of good corporate governance in the subsector.
- The evolvement of a level playing field for all operators especially by mobilizing requisite resources suitable for commitment into mortgages such as participation in pension fund administration.
- Restructuring of FMBN to improve its credit appraisal and disbursement mechanism as well as project monitoring procedures while encouraging adequately capitalized and repositioned PMIs to package their developer-clients for the purpose of accessing the estate development loan of FMBN.
- Drastic overhauling of the administration of the NHF in the realms of registration, mobilization and disbursement as well as transforming it to a trust – NH Trust Fund (NHTF).
- Broader definition of mortgage business to include areas like tourism, hospitality business, furniture and fittings, construction, estate management and development, consumer leading and all house-providing or related industries.

Other Reforms include:

- Promoting the development of efficient secondary mortgage market appropriately linked with capital market to make housing finance accessible to larger population as means of economic empowerment.
- Establishment of a framework for the emergence of specialized institutions or instruments such as mortgage and asset-backed securities (MABS) and mortgage insurance to enhance the securitization of mortgage loans and allocation of risks.
- Establishment of Secondary Mortgage Companies (SMCs) to promote secondary mortgage market facilities for residential mortgage loans from primary market lending institutions and holding the loans in its own portfolio. It will fund its mortgage purchases through its initial capital and the insurance of bonds or other unsecured debt securities. The SMC will package the mortgage loans from its own portfolio or from loan originators and structure them into mortgage-backed securities (MBs) for sale to investors in the capital market.
- Promotion of mortgage insurance as public-private partnership ventures as a financial product that offers risk coverage/mitigation to the owners of mortgage loans.

Roles and responsibilities of Stakeholders

The roles and responsibilities of stakeholders shall be as follows:

Government

The government shall be responsible for:

- Ensuring stable macro-economic conditions leading to lower inflation, lower market rates, and higher average incomes.
- Efficient system of land registration (Time and Cost) to enhance titling and liens so as to foster the development of housing sector with inputs from the Housing finance Stakeholders' Advisory Committee (HFSAC).
- Availability of dependable credit information systems and property database.
- Registration of professional real estate intermediaries and developers.
- Sound regulatory framework for the supervision of housing finance institutions, real estate companies, agents and brokers, building materials-related institutions.
- Enactment of appropriate laws detailing property rights and clear repossession and foreclosure procedure for lenders. The laws and procedures must be continuously updated to enhance inflow of foreign capital for housing development.
- Providing basic infrastructures for the enhancement of site and services scheme for property development (electricity, water, roads, telecommunication etc), political and social stability.
- Development of smarter housing finance subsidies targeted at market incentives to enhance the funding of affordable mass housing for low income group such as lowering the cost of registration and transfer of property through lien, guarantee of FMBN issue of mortgage bond for mass housing, tax holiday etc.
- Developing an active secondary housing/home market.
- Development of infrastructure and legal mechanisms for converting slum and squatter rights into legal rights that satisfy all stakeholders.

Central Bank of Nigeria (CBN)

The role of CBN shall include:

- Promote the establishment of Secondary Mortgage Companies (SMCs) with relevant government agencies, multilateral agencies and estate developers whose main purpose is to run businesses that promote secondary mortgage market facilities for residential mortgage loans.

FEDERAL MORTGAGE BANK OF NIGERIA (FMBN): DELIVERING ON NIGERIA'S SHELTER NEEDS

The Federal Mortgage Bank of Nigeria (FMBN) was established in 1956 as Nigerian Building Society (NBS), a joint venture of the Commonwealth Development Corporation and the Federal and Eastern Governments of Nigeria. With the promulgation of the Indigenisation Act 1973, the Federal Government Acquired 100 percent ownership of the NBS and consequently renamed it the Federal Mortgage Bank of Nigeria (FMBN). In 1994, the FMBN, with the Promulgation of the FMBN Act 82 (1993) and the

Mortgage Institutions Act 53 (1989) was accorded the status of the apex mortgage institution in the country.

Objective and Mandate

The Bank mobilizes long-term funds for on-lending to Nigerians to build, buy or renovate their residential houses under the National Housing Fund (NHF) scheme. Essentially, the mandate of the FMBN is to finance housing delivery to Nigeria's teeming population, exploring funding sources such as the NHF, the Nigerian Capital Market and offshore financial markets. Its mandate also includes ensuring that there is adequate liquidity in the Nigerian mortgage sector. It strives to create and nurture a viable and robust housing finance system to improve homeownership for all categories of Nigerians through affordable mortgage services.

Achievements

In line with its mandate, the FMBI has been delivering residential houses to Nigerians through three main windows (1) The National Housing Fund (2) The Estate Development Loan (EDL) and (3) the Nigerian Capital Market.

The NHF Window: The Bank advances mortgage loans to eligible NHF contributors to purchase, build or renovate residential houses in any location in Nigeria. However, the maximum amount of loan the Bank grants is ₦15 million. Since the NHF inception in 1992, the FMBN has mobilized a total of ₦18.596 billion through the scheme as at February 2012. The Bank has disbursed a total of ₦34.035 billion in financing for 18,668 houses which have been sold to NHF contributors across the country.

The EDL Window: Equally, ₦49,182 billion has been disbursed as loans to estate development companies for building of residential houses for sale to NHF contributors. This window has delivered a total of 32, 950 houses to NHF contributors as at February 2012. This effort has indeed led to the springing up of so many housing estates in the six geopolitical zones of the country which are now owned and inhabited by NHF contributors. Thousands of other housing units in various housing estates across the country are currently under construction under this window.

The Capital Market Window: The Bank in May 2007 explored the Nigerian Capital Market to finance the sale of Federal Government houses to civil servants through Mortgage-Backed Bond Instrument. Accordingly, the Bank successfully floated ₦26 billion as the first tranche of a ₦100 billion Mortgage – Backed Bond (MBB) used to refinance civil servants' acquisition of 9,575 non-essential Federal Government- owned residential houses in the Federal Capital Territory, Abuja. The transaction was the first of such transaction by a mortgage institution in sub-Saharan Africa. Currently, a pool of mortgages of about ₦12 billion from mortgage loan originators is being processed for the 2nd tranche of MBB which shall bring the cumulative beneficiaries under the MBB programme 16, 108 home buyers. Collectively, therefore, the FMBN has been able to deliver 61,193 housing units to Nigerians, despite the fact that the number of contributors to the NHF has been low; just a little above 3 million people when the maximum target has been 50 million.

HOUSING ESTATES FUNDED BY FMBN IN THE PAST ONE AND A HALF YEARS

In the past one and a half years, the FMBN has financed the construction of the following estates among others: Suntrust Housing Estate, Lugbe, Abuja; Trademore Mega City Housing Estate, Lugbe, Abuja; Aper Aku Housing Estate, Makurdi, Benue State; Ata–isi Supplies and Services Company Ltd Housing Estate, Cross River State; TMA Integrated Services Ltd Housing Estate, Uyo, Akwa Ibom State; and Honey Fill Construction Company Ltd Housing Estate, Asaba, Delta State.

Others are Ogun State Housing Corporation (Housing Estate), Abeokuta; Tola Tos Housing Estate, Odonis Elewa, Bota Village, Ibadan; Liberation Housing Estate, Awka, Anamabra State; Unity Garden Estate, Osisioma, Abia State; SY Global Business Links Ltd (Housing Estate), Lafiyawo, Tunfure Area, Akko, Gombe State; Adasolid Property Limited, Yola, Adamawa State; Benue Investment and Property Co. Ltd, Nyiman, North Bank Tse-Ayu, Makurdi, Benue State; Delrot Nigeria Ltd (Housing Estate), Kulende-Sobi Road, Ilorin, Kwara State; and Taraba Investment and Properties Ltd Jalingo, Taraba State.

The rest are Mamako Investment Ltd, behind Federal Housing, Dong New Layout, Jos, Plateau State; Terraquest Dev. Co. Ltd (Housing Estate), KM 13, Banchi-Jos Road, Dungai Village, Bauchi; Lape Construction Company, Juwapye, Ado-Kasa, Karu LGA, Nassarawa State; Ebonyi State Housing Dev. Corporation, Abakaliki, Ebonyi State; El-Tabera Housing Estate, Nsukka, Enugu State; Copen Services limited (Goshen Housing Estate), Independence Layout Annex, Enugu; and Jubilee Housing Estate, Independence Layout Annex, Enugu. Many of these housing estates have been completed and sold to NHF contributors or are currently under construction.

NEW INNOVATIONS AND STRATEGIES BY THE FEDERAL MORTGAGE BANK OF NIGERIA (FMBN)

The new innovations and strategies introduced by the FMBN are: Keying into the Federal Government Transformation Agenda and pursuing new relationships – new partnerships – with military institutions and public and institutional agencies.

KEYING INTO THE FEDERAL GOVERNMENT TRANSFORMATION AGENDA

FMBN Management, in a bid to contribute more positively to the Presidential Transformation Agenda, has introduced the following new initiatives in housing finance and development:

(i) **The E-collection platform**: The E-collection platform makes it possible for NHF contributors to pay their monthly NHF contributions in banks and their payments will be captured automatically electronically. With the platform, NHF contributors can check their NHF Account balances and as such be able to know if their employers are remitting their contributions as and when due. It is expected that the E-collection platform will boost income from the NHF scheme and increase transparency in NHF collection and make building of more residential houses at a faster pace possible.

(ii) **Opportunity for Nigerians in Diaspora:** Nigerians in Diaspora now have the opportunity to join the NHF scheme and loan offers. The strategy is to provide an avenue for Nigerians outside the country to make their monthly contributions to the NHF scheme. Equally, the programme will allow overseas contributors to take mortgage loans through the PMIs to finance houses of their choice.

(iii) **The NHF Informal Sector Cooperative Housing Loan Scheme (Coop Scheme):** The Scheme that came into operation on December 5, 2012 was introduced by the FMBN to extend access to NHF, loans to operators in the informal sector of the Nigerian economy. It is designed to enable people like motor mechanics, Akara sellers, and hairdressers, among others to access NHF loans for residential houses. The loan scheme, which operates under the NHF, is expected to capture the larger economic population as operators in the informal sector are estimated to constitute about 85 to 90 percent of the active economic population.

(iv) **New Partnerships:** The new Management of FMBN has been pursuing new relationships with key institutions like the Nigerian Airforce, Nigerian Navy, the Economic and Financial Crimes Commission, the Nigeria Police, among others, with a view to financing the building of staff residential estates for them through the NHF scheme. In this regard, the Bank has offered to finance the building of 150 housing units in each state of the federation and Abuja for men and officers of the Nigeria Police. This totals 5,550 housing units, and the police leadership has accepted to support this initiative. In conclusion, the FMBN is working assiduously to provide shelter for Nigeria's teeming population, despite constraints it is facing in the area of enforcement of compliance with the NHF scheme, outdated mortgage legislation and inadequate funding. Fundamentally, the nation needs ₦16 million housing units to bridge the housing deficit in the country; and providing these houses will cost ₦56 trillion at a conservation cost of N3.5million per unit. This is a colossal amount which cannot be funded through only the NHF, but requires urgent injection of funds from both the government and the private sector. That is why the FMBN is as well exploring offshore funding to boost financing for mass housing which the nation urgently needs.

POLICY RECOMMENDATIONS AND CONCLUSIONS

Millions of families are homeless and over 70 percent live under subhuman conditions because they cannot afford decent housing despite government promises over the years to provide "housing for all". As the nation's population grows at an annual rate of 3.2 percent, with more than five million people born annually, up to 750,000 new homes, by implication, are built yearly all over the nation to meet this ever-increasing basic need (qtd. in Ola, Tell 2012:33). Deplorable as some of these houses may be, they serve the immediate purpose of offering shelter at affordable cost to the rapidly expanding rural and urban population.

While figures from the Nation Bureau of Statistics, NBS, reveal that Nigeria's housing shortfall is between 12 and 14 million residential units, real estate experts and industry watchers maintain that 18 million housing units are currently required to forestall an imminent housing crisis. In the hierarchy of needs, housing (property) comes second after food, which explains why governments make it their cardinal goal to provide accommodation.

The Presidential statement, early in 2012, disclosed that government required $30 million (N4.8 billion) to provide adequate shelter and build additional 60 million housing units to meet the housing needs of the country. But Nigerians who have been inundated with such promises without witnessing their fulfilment in the past are of the view that housing is yet to get serious attention by all levels of government. This view is reinforced by the fact that since 1991 when the National Housing Policy, NHP, was promulgated, the daunting challenges facing the country's housing sector, such as poor policy implementation, bureaucracy, political instability and corruption, are yet to be surmounted.

But attempts by the industry operatives to increase investments in the real estate sector of the Nigerian economy have remained unsuccessful as a result of expensive, cumbersome and complicated land tenure and transfer of legal titles in procedures. Also, expensive cost of funds with high interest rates for construction and mortgages in comparison to the long-term rentals expected by an investor in the real estate market is also a major bottleneck. This perhaps explains the low contribution of the mortgage sector to the national economy. According to Moghalu (qtd. in Ola, Tell 2012:35) , mortgage finance contributes less than one percent to the country's GDP as against Malaysia's with 24.7 percent, South Africa's with 29 percent, and New Zealand's with 85 percent. Moghalu further identified challenges of the housing finance sector as dearth of long-term financial instruments absence of mortgage liquidity, weak capital base, inadequate primary mortgage institution, weak corporate government, inadequate skilled labour, and high cost of building materials, among others.

These challenges in the sector also explain why foreign investors are not taking advantage of the country's huge endowment in land resources to invest in the sector. The old housing policy failed woefully in terms of implementation while housing crisis continues to threaten the socio-economic landscape of the nation. It is hoped that new policies will facilitate growth of the housing sector and by implication the national economy by truly delivering housing to the generality of the Nigerian populace.

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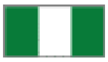

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