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Transforming the mortgage sub-sector using the FSS 2020 platform

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1. Introduction

FSS2020 Strategy implementation blueprint recognizes two major segments that will drive the economy to be one of the top twenty economies by the year 2020. These two segments are (i) the Drivers and (ii) the Enablers.

Mortgage sector of FSS2020 Strategy document falls within the category of the drivers.

The mortgage sector is one of the major sectors of our economy with immense potential waiting to be harnessed or translated into economic gain. This potential has not been realised over the years due to lack of cheap long term funds, weak and ineffective statutory verification and certification processes and the structure of housing delivery in Nigeria.

While there are no reliable housing statistics available in the country, some level of research has been undertaken by different bodies in an effort to estimate current housing stock and potential deficit which is put at about 18 million.

In view of the importance of the Mortgage Sector to the development of the nation's financial system, FSS2020 Secretariat which has been a

major advocate of the need to deepen the mortgage sector our emphasis has been on mortgage finance whose availability is critical to the development of the financial system.

2. FSS2020 Mortgage: Vision and Mission:

Vision - The vision of FSS2020 is "to have one of the safest, highest home ownership rates and most profitable mortgage markets among the emerging economies".

The key elements of the Vision Statement have two parameters, namely:

Safest - The Nigerian financial system will be modelled to provide unparalleled safety, in order to mitigate the perception usually associated with emerging economies. Our financial system will be re-configured with shock-recovery capabilities and sensitivity

Emerging Markets - We intend to conquer and use the key emerging markets as our initial benchmark. Emerging markets will be as defined by World Bank and IMF.

Mission - The Mission of FSS2020 is "to use mortgage market as a major agent of positive social and economic change by making mortgage finance available and affordable to all classes of Nigerians".

3. Strategic Objectives of FSS2020 Mortgage Sector and the Transformational Programs:

FSS2020 Mortgage Sector has three main Strategic Objectives, namely -

M1 - Establish a secondary mortgage market

M2 - Attract affordable international credit to fund affordable housing programmes

M3 - Advocate for mortgage ready and affordable housing

Three Transformational Programs were designed to support the realization of the three objectives of the Mortgage Sector. These Transformational Programs are:

TP1 - Establishment of Mortgage Refinancing Companies (MRC)

TP2 - SPV for the Development of Affordable Housing Clusters

TP3 - Mortgage Asset Registry System (MARS)

It is to be noted that Strategic objective M1 is supported by TP1; Strategic objective M2 is supported by TP2 while Strategic objective M3 is aligned to TP3

4. TP1 - Establishment of Mortgage Refinancing Companies (MRC)

This Transformational Program (TP1) is designed to provide liquidity facilities and financial guarantees for refinancing primary mortgages. The benefits of this program include the provision of access to cheap and long term loans to enable longer mortgage tenure and eventual reduction of interest rate; issuance of bonds to raise finance for the housing market and the connection of primary mortgage originators to capital markets.

The key deliverables from this program are the establishment of Regulatory Framework; Risk Management framework and the issuance of operating license.

5. TP2 - SPV for the Development of Affordable Housing Clusters

The idea here is to facilitate the set-up of an SPV listed on the Nigerian Stock Exchange, NSE to develop sustainable affordable mortgage ready housing clusters - to both deepen the mortgage sector as well as broaden the Capital Market. The concept is

based on EMAAR, and a structure that can attract local & international Long Term Finance. (Note: Emaar Properties is a real estate development company located in the United Arab Emirates. It is a public joint-stock company and is listed on the Dubai Financial Market. The company operates internationally providing property development and management services)

The benefits of the program include increase in housing stock for low & medium income earners; standardisation of the housing sector as the template for mortgage ready regime in housing delivery; deepening of the mortgage sector and the provision of a joint public and private vehicle for development.

The expected key deliverables would include 'off-the-shelf' mass housing design; increased funding schemes for mass housing; availability of skills requirements for mass housing and the development of a structure that can be adopted by State Housing Authorities SHAs and Federal Housing Authority FHA.

6. TP3 - Mortgage Asset Registry System (MARS)

This program can be described as an integrated IT system linking the federal and states' land and mortgage assets registries, to make mortgage transactions online, simplified and accessible by stakeholders and to track encumbered mortgage assets used as collaterals.

The benefits of MARS are to facilitate due diligence for mortgage transactions and the provision of timely access to land and mortgage asset data.

The deliverables of the program include the availability of an integrated IT system for Mortgage Assets; the development of IT infrastructure; enhanced

increase in IT deployment and integration; Increase in Human Resources Development and IT Capacity building and the enthronelement of Electronic Mortgage like we have in US called Mortgage Electronic Registration Systems, MERS which owns and operates an electronic registry known as the MERS system, which is designed to track servicing rights and ownership of mortgages in the United States.

7. Mortgage Sector – Analysis:

Mortgage sector analysis in Nigeria is broken down into the sector weaknesses, sector threats and sector challenges for better understanding of the key issues involved. We also have proposed our planned sector interventions to mitigate the issues as identified. The sector weaknesses include leadership instability among Government agencies within the Mortgage Industry; poor capital base of Mortgage Institutions; weak Corporate Governance; poor Risk Management Practices; lack of reliable data within the Industry and low level of IT deployment.

Also, the sector threats are the non-passage of proposed mortgage finance related bills by the National Assembly; lack of Land Reform Policies/Legislation by some State Governments; political interference and Policy inconsistencies; lack of synergy among financial regulators; inadequate Long term funds for Mortgage; labor agitations against contributions to NHF by civil servants and non-participation by private sector; lack of harmonized electronic Land Registry System across the States; poor Infrastructure; poor business environment and lack of Affordable Mortgage - ready houses.

The key challenges are numerous and they include inadequate number of Secondary Mortgage Institutions; lack of long term mortgage financing; lack of appropriate mortgage products

in the capital market; weak Inter-agency collaboration; lack of Affordable Mortgage ready Assets; lack of a standardised and harmonized Land Registry System across the States; inadequate Land Reform and Mortgage related Policies/Legislation; absence of Clear Property and Security rights; Mandatory Governor's consent; inefficient Land Management system; lengthy, Rigid and ineffective foreclosure procedures and high costs associated with property transactions.

Planned Sector Interventions:

FSS2020 designed major sector interventions to enable the realization of the mortgage sector objectives and the attainment of the Transformational Programs. The focus is to: "enhance long term financing products and access to funds". These interventions include but not limited to the following issues: sensitization program and engagement with major Stakeholders; strengthen the Legal and Regulatory framework to allow for multiple players; facilitate the development of Sector -Wide Underwriting Standards; promotion of inter-agency collaboration; advocacy visits to State Governments (for provision of lands & infrastructure in Mass Housing Estates); get Federal Government buy-in; creation of Mortgage intervention Fund; facilitate the creation of affordable Housing by the Federal Mortgage Bank of Nigeria, FMBN and Federal Housing Authority, FHA; FSS2020 to urgently meet with SEC Management on the need for SEC to take leadership role in this program; get Nigerian Stock Exchange, NSE to be more active on this initiative; advocacy to actualise the development of MARS; facilitate actions around the realization of the MARS project; solicit the support of the State Governors on MARS and

engage Federal Ministry of Power, Works & Housing on a technical discussion around MARS project status.

8. FSS2020 Mortgage Sector Bills:

There are two major Bills that will impact on FSS2020 Mortgage sector and these are summarized as follows:

Federal Mortgage Bank of Nigeria

Amendment Bill: This is an Act to provide for the repeal of the Federal Mortgage Bank of Nigeria Act Cap F16LFN, 2004 to make comprehensive provisions for the re-establishment of the Federal Mortgage Bank of Nigeria, its Board of Directors and empower FMBN to operate as a player in the Secondary market. The Bill is recommended for repeal to allow FMBN play only as operator in the secondary mortgage market.

Mortgage Institutions and Allied

Matters Bill: This is an Act to repeal the Mortgage Institutions Act 1990 and make comprehensive provisions on carrying on mortgage business in Nigeria to address the housing needs of the country and for matters connected therewith. The Bill seeks to distinguish Primary and Secondary Mortgage Markets in Nigeria with CBN as regulator while FMBN will operate as player in the Secondary market promoting delivery of affordable and modern houses to Nigerians.

The Bill has been reviewed in conjunction with other stakeholders and the high level amendment is the role of CBN as regulator of the PMBs.

Presently, the Bill has been passed 1st reading in the Senate. It was introduced to the Senate by the Committee on Banking, Insurance and Other Financial Institutions and awaits 2nd reading.

SUCCESS STORIES OF FSS2020 MORTGAGE SECTOR:

Many successes have been recorded under the FSS2020

mortgage sector. These include, but not limited to the following:

(a) The Nigeria Mortgage Refinance Company (NMRC) has been successfully established and now in full operation. The NMRC is set up as a Public limited liability Company incorporated to be a private sector driven company with the purpose of developing the primary and secondary mortgage markets by raising long-term funds from the domestic capital market as well as foreign markets and thereby resulting to accessible and affordable housing in Nigeria; NMRC also addresses the long-term funding constraints hindering the growth of the primary mortgage market, and thereby reducing the funding cost of residential mortgages and availability of housing to Nigerians.

(b) Recapitalization of Primary Mortgage Banks has been achieved by the Central Bank of Nigeria. The Central Bank of Nigeria's operational guidelines for the PMBs stipulated N2.5 billion as the new minimum capital base for PMBs operating at State level, and N5 billion for those wishing to operate at National level.

(c) Uniform Underwriting Standards has been introduced in the sector. The Uniform Underwriting Standards serve as industry standards for granting home mortgage loans to borrowers that will qualify for refinancing facility, thereby promoting efficiency and mitigating the mortgage financing risks in the market as well as lead to more affordable home ownership in Nigeria.

(d) Development in the Nigeria Housing Finance Programme: The Central Bank of Nigeria continued to implement the Nigeria Housing Finance Programme. The four components of the initiative: Nigeria Mortgage Refinance Company; Mortgage

Guarantee; Housing Microfinance and Technical Assistance/Company have all achieved considerable levels of progress since inception of the programme.

9. CONCLUSION: A core strategic objective for the Nigerian government is to achieve broad based and inclusive growth by unlocking markets that have the potential to generate jobs. Mortgage market is clearly one of such markets with high potentials to create meaningful economic activities in the country.

Let us conclude by painting a picture of what we want the Mortgage market to look like in the year 2020. A vivid description of the end state of the Nigerian mortgage market by the year 2020 is therefore depicted with the following outlook:

(a) 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;

(b) 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 capitalisation of equities;

(c) 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.

(d) A market that would provide long-term financing facility for mortgages at low interest rate and accessible to all classes of Nigerians.