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Mortgage institutions and financing in nigeria: performance, constraints and prospects

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Mortgage Institutions and Financing in Nigeria: Performance, Constraints and Prospects

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I. Introduction

Housing finance in Nigeria dates back to 1956 when the Nigerian Building society (NBS) was established. The NBS was a joint venture of the Commonwealth Development Corporation, the Federal government and the Regional governments. It was established to mobilize resources for housing and other infrastructural developments. The government bought over the Nigerian Building Society and transformed it into the Federal Mortgage Bank of Nigeria (FMBN), to make housing finance more accessible. Mortgage Institutions in Nigeria are institutions basically established to provide safe and convenient means of savings and applying such funds to make loans on mortgages. The loans are primarily aimed at those who wish to buy their own homes. The objective of this paper is to review the performance of the mortgage institutions in Nigeria. The rest of the paper is divided into four parts. Following this introduction is part 2 that focuses on the evolution of mortgage financing in Nigeria. Part 3 reviews the performance of mortgage institutions, while part 4 highlights the constraints in the sub-sector and the prospects of mortgage financing in Nigeria. Part 5 concludes the paper.

II. Evolution of Mortgage Financing in Nigeria

Organized mortgage financing in Nigeria commenced with the establishment of the Nigerian Building Society (NBS) in 1956. The NBS was a joint venture between the Commonwealth Development Corporation, the Federal Government of Nigeria and the Eastern Regional Government. In 1977, the name of the building society was changed to the Federal Mortgage Bank of Nigeria (FMBN) with a capital base of ₦20 million by Act No. 7 of 1977. The capital base was increased further to ₦100 million in 1979. In 1989, the Mortgage Institutions Act was enacted to provide for the establishment and licensing of primary mortgage institutions under the supervision of the FMBN.

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Consequently, several privately owned enterprises applied for and were granted licence to operate as primary mortgage institutions. In 1992, the National Housing Fund Act was enacted to provide long-term funds for the sub-sector by mandating employers of labour, both in the public and private sector, to deduct 2.5 per cent of the monthly basic salaries of staff earning ₦3000 and above, for onward contribution to the National Housing Fund (NHF). The Act provided for the administration of the Fund by the FMBN and also listed other sources of funding that were never enforced. The supervision of mortgage institutions was eventually transferred to the Central Bank of Nigeria (CBN) in 1997.

III. Review of the Performance of Mortgage Institutions

Available data indicate that Mortgage Institutions performed poorly between 1989, when the Mortgage Institutions Act was enacted and 1997, when supervision was transferred to the CBN. Only 195 or 69.6 percent of the 280 PMIs operating in 1995 were handed over to the CBN by the FMBN in 1998, the remainder having ceased to operate. Following the intensification of surveillance and increased efforts by the CBN to sanitize the sector, the licences of 2 of the 195 PMIs were revoked in June 2002. In September 2003, the licenses of 97 others were revoked as they were confirmed to have closed shop since 1998, thereby bringing the number of surviving PMIs to 96 or 49.2 percent of the 195 PMIs handed over to the CBN.

The creation of the Other Financial Institutions Department (OFID) of CBN was a landmark development in the history of the regulation and supervision of mortgage institutions in Nigeria. Prior to this period, the FMBN, which was saddled with the dual role of a regulator and operator was unable to fulfill the mandate of growing the sub-sector. Upon inception, OFID identified the major problems affecting PMIs to include poor corporate governance, inadequate capital base and lack of well-defined business philosophies. This informed the need to sanitize the sub-sector, as well as to adopt the strategy of partnering with the Nigerian Deposit Insurance Corporation (NDIC), the FMBN, the Mortgage Banking Association of Nigeria (MBAN), the PMIs, and other stakeholders in the sector. This was with a view to achieving the cardinal objective of stabilizing and growing the sub-sector. Other measures adopted include the upward review of the minimum paid-up capital of PMIs from ₦50 million to ₦100 million and the adoption of more vigorous off-site and on-site supervision strategies.

A further verification process revealed that 17 of the 96 surviving PMIs handed over to the CBN were undergoing various forms of restructuring, as a result of which, only 79 PMIs were operational in 2001. The decline in the number of operating PMIs was, however, reversed in 2002 as the number of operating PMIs increased to 80. Thereafter, it continued the upward trend to 81 and 83 in 2003 and 2004, respectively. It stood at 87 as at 31st August 2005. The total assets of reporting PMIs also grew from ₦33.5 billion in 2001 to ₦55.0 billion, ₦64.4 billion and ₦81.2 billion in 2002, 2003 and 2004, respectively, representing increases of 64.2 percent, 17.1 percent and 26.1 percent over the preceding period. The total assets of the 75 reporting PMIs as at 30th June, 2005 stood at ₦95.6 billion.

The FMBN, representing the other source of organized mortgage funding, received only ₦10.6 billion as total contributions to the NHF between 1992 and September, 2002. Available information showed that the bank had collected ₦15.4 billion as at the end of the first quarter of 2005, indicating an increase of ₦4.8 billion or 45.3 percent in the two and half year period between October 2002 and March 2005.

IV. Constraints/ Problems of the Sub-Sector

The mortgage financing sub-sector in Nigeria has been unable to accomplish the objectives for which it was established owing to a number of constraints. Notable among which are the ones discussed below:

Under-capitalization of PMIs

The mortgage sub-sector, as an integral part of the building industry, is very capital intensive. Unfortunately, several PMIs in Nigeria are not adequately capitalized to carry out the function of mortgage financing, as a result of which they are unable to create substantial mortgage assets. At the end of June 2005, only 38 or 50.7 percent of the reporting 75 PMIs had met the statutory minimum paid-up capital of ₦100 million. It is obvious that this amount is not large enough to cope with the activities in the sector given the capital intensive nature of the operations. The envisaged reforms in the sub-sector, which would invariably involve recapitalization, would further expose the widespread weaknesses in the sub-sector in respect of capitalization.

Insufficient access to low-cost long term funds

Mortgage financing involves extending loans to individuals/groups for the acquisition of property, in return for which the beneficiaries make repayments to the mortgage financiers who retain ownership of such property until repayment is fully made. Such repayments cover both principal and interest payments on the loans and are usually structured to run for upwards of 20 to 30 years. The paucity of consistently priced low-cost long term funds, therefore, puts a ceiling on the number of new mortgages that could be created, making it perhaps the most serious problem facing the sub-sector. The sole window for low-cost long term funds in Nigeria is the NHF. The total amount available under this scheme cannot cope with the demand for funding. Available data showed that of the ₦39 billion applications received by the FMBN only ₦20 billion had been approved as at March 2005.

Absence of Deposit Insurance cover

The confidence of investors in financial institutions is largely enhanced by the availability of deposit insurance. This insurance, which in Nigeria is provided hy the Nigeria Deposit Insurance Corporation (NDIC), is extended only to universal banks, thereby creating a credibility problem for PMIs. It is, however, noteworthy that the NDIC has decided to extend deposit insurance to PMIs and the modalities for application are being worked out.

Lack of skilled human capital in the sub-sector

The paucity of skilled manpower within the mortgage institutions reflect in the poor business philosophies, which in turn, results in the diversion of substantial loanable funds of PMIs to other sectors of the economy. Most practitioners of mortgage financing in Nigeria are ex-operators of universal banks and related professions who are not fully appreciative of the peculiarities and deliverables in the sub-sector. For instance, only 20 or 26.7 per cent of the reporting 75 PMIs complied with the required minimum mortgage assets to total assets ratio of 30 per cent as at June, 2005. Furthermore, the lack of sufficiently skilled artisans and related professionals in the building industry has made it difficult to construct price targeted houses.

Difficulty in Land acquisition

Land is arguably the most important collateral security in the mortgage sub-sector as the title to any property is ultimately vested on the owner of the land on which it is located. The Land Use Act of 1978 vests the ownership of all land in Nigeria on State Governors, transfer of which must be evidenced by the possession of a Certificate of Occupancy (C of O) duly signed by the Governor. The process of obtaining a C of O in Nigeria is a cumbersome one. Thus, the creation of mortgage facilities is hampered by the difficulties experienced inv obtaining C of Os.

V. Prospects of Mortgage Financing in Nigeria

Recent developments in the housing industry and the mortgage finance sub-sector have improved the prospects of mortgage financing as a key strategy for improving the performance of the Nigerian housing market. The favourable developments, some of which are outlined below, must be carefully monitored in order to ensure effective impact on the housing industry in Nigeria:

- Proactive regulation of Mortgage Institutions by the Central Bank of Nigeria, through the implementation of strict off-site and on-site supervisory activities. This will ensure good corporate governance and encourage the flow of financial resources to the sector.
- The inauguration of the Committee of Mortgage Institutions of Nigeria as a self-regulatory body provided a platform for generating policy inputs and improved communication between regulators and operators in the sub-sector.
- The decision by the Nigeria Deposit Insurance Corporation to extend deposit insurance to PMIs will improve the perception of the sector by the investing public.
- The on-going reforms in the housing sector is expected to culminate in the amendment of the Land Use Act of 1978 and other housing statutes with a view to attaining a more private-sector friendly housing policy.
- The emergence of a virile private-sector driven real estate development companies under the umbrella of the Real Estate Developers Association of Nigeria, which should pioneer the construction of price-targeted housing units, will brighten the horizon for the industry.
- The on-going banking sector reforms which should encompass the review of the minimum paid-up capital of Other Financial Institutions (PMIs inclusive) will translate to a high level financial deepening and sophistication in the post-consolidation era, and should attract foreign direct investment to the housing sector, as is the case with emerging economies around the globe.
- The down-scaling effect of the banking sector reforms may lead to the emergence of well capitalized PMIs either as stand alone institutions or as investment arms of the evolving mega banks.
- Increased awareness on the need for capacity building in the industry.

The imperative of capacity building in the sub-sector was underscored by the report of the Sub-committee of Committee of Mortgage Institutions of Nigeria (COMIN) on strengthening and repositioning of PMIs which identified the issue of capacity building and engendering of professionalism as key factors for strengthening and repositioning the sub-sector.

- The imminence of an organized secondary mortgage market. The role of the secondary mortgage market is to purchase mortgage loans from primary lenders, thereby replenishing the supply of funds available for lending to prospective home owners. The mortgage loans are subsequently pooled together and used as a basis for issuing mortgage-backed securities and debt instruments in the capital market. This role is largely fulfilled by government sponsored enterprises (GSEs) in the likes of Freddie Mac and Ginnie Mae in the United States of America and Cagamas in Malaysia. Contemporary circumstances have, however, propped up the FMBN to fulfill this role in Nigeria. It is, however, expected that the processes would be appropriately monitored by the CBN, while the role should ultimately be open to private sector operators under government sponsorship as this would take care of the inefficiencies associated with government-controlled businesses.

VI. Concluding Remarks

The prospects of the mortgage finance sub-sector as a catalyst for growth in the housing industry is high, following the improved performance of the sub-sector since 2002. To sustain this improvement, concerted efforts should be made to resolve the identified problems of the sub-sector. It is, also, hoped that collaboration between the Federal Ministry of Housing and Urban Development, Federal Ministry of Finance, CBN, NDIC, the Securities and Exchange Commission (SEC), FMBN and other stakeholders in the housing industry would be intensified in order to ensure that the mortgage finance sub-sector assumes its rightful role of growing the housing market in Nigeria.

Understanding the Technical Operation of Mortgage Market: Financing Options and Valuation Techniques

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I. Introduction

Interest in mortgage financing has increased in recent time. Over ten (10) state governments that had stopped the contributions of their employees into the National Housing Fund (NHF) have rejoined the scheme in the last twelve months. This can be attributed to the enhanced confidence in the scheme or the renewed pressure to access the fund for mortgage or a combination of both factors. This paper aims to discuss the evolution of mortgage banking in Nigeria, development and practice of mortgage financing and valuation techniques using Primary Mortgage Institutions (PMI) as a thrust. It is also to elicit contributions from others and subject the final product to further research for development of the scheme in Nigeria.

II. An Overview of Mortgage Business

Mortgage banking is an aspect of development banking that specializes in creation of the demand for and financing of house ownership through well structured short to long term repayment arrangements. Many mortgage institutions have designed special products and services which they market towards achieving this objective as well as having a good market share of the mortgage business. Indeed, mortgage business have become very important and well developed in the UK and USA and these countries can serve as good reference points for benchmarking, where mortgages provide essential bedrock for SME, private sector development and tangible security for loan. Mortgage banks have grown in these countries and in some cases constitute major or bail out investors in conventional banks. The objective of a primary mortgage institution in Nigeria shall be the provision of affordable housing on a continuous basis.

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