MORTGAGE FINANCING IN NIGERIA: ISSUES AND CHALLENGES

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1. INTRODUCTION

It gives me great pleasure to be invited as the Guest Lecturer at this year's John Wood Ekpenyong Memorial Lecture, which is the ninth in the series. The main objective of the lecture series, which is to extol professionalism and expound desirable land, housing and economic development policies, is very relevant, recognising that the present administration has made the creation of an enabling environment for economic development the cornerstone of its overall policy objective. The Central Bank of Nigeria identifies with this policy focus, convinced that the existence of such an environment holds the key to economic recovery in particular, and national development in general.

The Housing Sector plays a more critical role in a country's welfare than is always recognized, as it directly affects not only the well-being of the citizenry, but also the performance of other sectors of the economy. Adequate housing provision has since the early 1970s consequently engaged the attention of most countries, especially the developing ones, for a number of reasons. First, it is one of the three most important basic needs of mankind– the others being

food and clothing. Second, housing is a very important durable consumer item, which impacts positively on productivity, as decent housing significantly increases workers' health and well being, and consequently, growth. Third, it is one of the indices for measuring the standard of living of people across societies. Consequently, programmes of assistance in the areas of finance, provision of infrastructure and research have been designed by governments to enhance its adequate delivery. The focus on finance has, however, been very prominent for obvious reasons. This is because housing provision requires huge capital outlay, which is often beyond the capacity of the medium income/low income groups.

A major area of concern has been mortgage financing, which has often been fingered as one of the most formidable constraints in the housing sector. It is in recognition of the critical importance of finance in housing delivery that I have chosen to speak on "Mortgage Financing in Nigeria: Issues and Challenges". The thrust of the paper, is therefore, to articulate the main issues that must be addressed so as to ensure efficient and sustainable credit delivery to the housing sector. For ease of exposition, the paper is divided into five parts.

Following this introduction, part 2 of the paper reviews mortgage financing arrangements in Nigeria. An attempt is made in part 3 to appraise housing credit policies in the country since the 1970s, while major constraints to mortgage financing are identified in part 4. In the final part, some proposals on the way forward to ensure sustainable and efficient mortgage financing are outlined.

2. OVERVIEW OF HOUSING FINANCE ARRANGEMENTS IN NIGERIA

Government policies aimed at providing affordable and comfortable housing for all Nigerians include the following:

- **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 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 5 percent of total loans and advances. The share was raised to 6 percent in 1980 and 13 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. The financial sector was, however, liberalized in 1993. With the deregulation, the preferred status accorded to the housing and construction sector was discontinued.

- **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 indicates that the insurance sector has been active in mortgage financing.

- **Specialised 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.

- **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.

- **The Federal Mortgage Bank of Nigeria (FMBN)**

The Federal Mortgage of Bank of Nigeria 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 mobilised 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.

- **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 institutions. The PMIs were expected to enhance private sector participation in housing finance.

- **The Federal Mortgage Finance Limited (FMFL)**

The Federal Mortgage Finance Limited 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 (PMIs) 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.

- **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 mobilisation 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:

- **Private individuals –government encourages individuals to save to build or buy their houses at low interest rates. Under this scheme, the Primary Mortgage Institutions 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.

- **Government introduces appropriate fiscal measures to protect the assets and liabilities of individuals, and stabilize individual deposit through contractual savings schemes.**
- **The Central Bank of Nigeria, 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:

- **Mandatory contributions of Nigerian workers in both the public and private sectors. Participation in the scheme is required for all workers earning ₦3,000 per annum or more. The participants contribute 2.5 per cent of their monthly salaries to the housing fund at an interest rate of 4 per cent to each savings/contribution made.**
- **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.**

- **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 non – life funds and 40 per cent of their life funds in real estate development, of which not less than 50 per cent must be channeled through FMBN, at an interest rate not exceeding 4 per cent. 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.**
- **Contributions from the Federal, State and Local Governments- Under this scheme, 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 per cent 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**

  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.

3. AN APPRAISAL OF HOUSING/MORTGAGE FINANCING IN NIGERIA

An appraisal of mortgage financing in Nigeria shows that these measures have produced some salutary impact on the housing sector. Available information reveal that about ₦1.065 billion was granted as loans and advances by the insurance companies to the housing sector between 1990 and 1998. This represented an average of 39.4 percent of their total loans and advances during the period.

The analysis of the PMIs operations also indicate that loans to customers amounted to ₦5.987 billion within the period 1992 – 2001, just as the number of operators rose steadily to a peak of 280 in 1995 before it declined.

Available information also reveals that the supply of credit by the Federal Mortgage Bank of Nigeria is grossly

inadequate to meet the growing demand. With regard to cooperative societies and state/municipal governments, evidence seem to suggest some increase in the level of funding although, there appears to be a lull in recent times owing to inadequate funds.

In terms of fund mobilization, the national housing scheme recorded modest achievements as contribution to the scheme increased to over N20, 073.0 million by December 1997. As at end September 2000, FMBN mobilised a total of N5.8 billion from 1.8 million contributors to the NHF while it granted N375 million loans to 631 contributors through 20 PMIs for the construction of houses.

Overall, there is evidence of declining activities in housing finance generally. The average share of GDP invested in housing declined from 3.6 percent in the 1970s to less than 1.7 percent in the 1990s. In addition, between 1992 and 2001, the volume of savings and time deposit with the banks and non-bank financial institutions grew by 604.94 percent from ₦ 54 billion to ₦ 385.2 billion. However, the proportion held by the housing finance institutions declined from 1.4 percent to 0.22 per cent in 1998, indicating a fall in the flow of funds into the housing finance sector.

4. LINGERING PROBLEMS OF MORTGAGE FINANCING IN NIGERIA

The statistics given above is worrisome and underscores the existence of some lingering problems, which constrained adequate and efficient credit delivery to the housing sector. They include the following:

- **Low Interest Rate on National Housing Fund**

  The low interest rate level stipulated by law on investment on NHF makes the banks and insurance companies reluctant to invest in the Fund especially, as there are some more profitable investment avenues.

- **Low Level of Participation in the NHF**

  The number of contributors to the NHF has been relatively small compared with the national work force. There are about 9 million workers who are yet to be registered and are therefore not making any contributions. There are also alleged cases of diversion of workers contributions to the fund by employers to other investment purposes.

- **Macroeconomic environment**

  The hitherto high inflation rate negatively affected the macroeconomic environment. There is need to continue to keep the rate of inflation moderate as high inflation

rate and structural bottlenecks in the economy do not encourage contribution toward the fund.

- **Non-Vibrancy of some PMIs**

  The loss of focus by some PMIs in favour of non-core activities such as trading as well as the slow disbursement of NHF to the PMIs, made some of them to be competing with the banks in sourcing for funds for purposes other than mortgage financing.

- **Cumbersome Legal Regulatory Framework for Land Acquisition**

  The existence of a cumbersome process of title documentation of land ownership which is reinforced by inadequate cadastral system makes mortgage financing very difficult. This has been seen as one of the factors responsible for slow disbursement of NHF.

- **The Structure of Bank Deposit Liabilities**

  This is preponderantly short term, therefore, the deposit money banks tend to avoid fund mismatch i.e. borrowing short but lending long, which is required in mortgage financing. The key issue that emerges therefore revolves around how to ensure adequate long term lending by financial institutions rather than the current short term lending practice. This requires significant intermediation

efforts, especially, since housing finance is very sensitive to inflationary environment. Another related issue is the inability of the financial institutions to mobilize resources effectively for low-income housing.

5. THE WAY FORWARD

- **The financing of national housing programmes should be viewed primarily as a national responsibility. The private sector should be encouraged to provide the bulk of actual investment funds for housing middle income and upper income groups. For the low income group, however, continued public support, individual initiative and labour movement involvement, will be required for housing and community development. Empirical evidence shows that private sector participation in housing is the most assured way to induce stability in the market.**
- **Indeed, the role of Government should emphasize creating an enabling environment to stimulate private sector participation in long-term housing finance. This includes provision of physical infrastructure, enhancing the soundness and competitiveness of mortgage finance institutions and developing property rights.**
- **The housing fund contribution should be integrated into the personal income taxation system such that a defined**

proportion of taxes paid are allocated to the housing fund pool, as it is done in Singapore.

- **There is need for constant re- engineering of the capital and money markets in order to cope with the renewed challenges of provision of some mortgage financing. In this regard, the restructuring and strengthening of the FMBN becomes imperative for it to remain a viable financial institution with the capacity to enhance efficient housing finance development in Nigeria.**
- **Cooperative and savings and credit institutions are complementary organizations in the housing sector. Savings and loan investment funds may be better able to serve low-income families if they are channelled through cooperatives. Infact, the cooperative societies may be necessary to encourage savings and loan associations to finance genuine low-income housing, since it enables small individual savings to be pooled into a collective mortgage. This complimentary roles should therefore be encouraged.**
- **In addition to funds through regular budgetary and fiscal programmes, there is need to put in place other measures to boost available investible funds in this sector. This may include the introduction of special – purpose bonds**

designed to attract institutional investors, firms and individuals to participate.

- **New sources should be explored through the development of a variety of instruments for the mobilization of fund from the capital market. This include, the large-scale securitization of mortgage portfolios, a mechanism that has remained the primary engine of growth in the housing finance systems of the United States, Germany, France and Italy to name only a few. For example, the National Housing Fund in South Korea thrives on, not only the deposit subscriptions, but also housing bonds issued by the Housing Bank to finance housing development programmes. Therefore, broadening the capital market to encourage sales and exchange of housing-related securities, i.e. housing bonds, mortgages, loan participations and certificates, can generate additional leverage. This is an important means to attract short or medium-term investment fund into the sector.**
- **There is need to continue with sound economic and monetary policies to overcome the negative effect of inflation on housing and other construction finance, which require long-term credit in the country. This is because high and persistent inflation erodes the real value**

of money and is a major obstacle to the extension of long-term credit.

Conclusion

I have in this paper tried to present an overview of mortgage financing in Nigeria and highlighted the challenges and problems to be addressed in order to boost the flow of funds into the housing sector. On its part, the Central Bank will continue to evolve policies that would ensure steady flow of financial resources to the mortgage finance sector.

The Bank will also increase its surveillance and supervisory activities on the mortgage institutions to ensure their orderly growth and development. Happily, the issue of distress in the sector is being nipped in the bud. It is my belief that given the positive response from the generality of the people as well as cooperation from all stakeholders, the problem of inadequate funding of the housing sector will soon be overcome.

I thank you for your patience.

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