The Obasanjo Reforms
HOUSING SECTOR

BUILDING A NEW & MODERN NIGERIA

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HOUSING SECTOR

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INTRODUCTION

The financing of housing on a mortgage basis and as an institutionalized and formal sector activity began in Nigeria in 1956 with the establishment of the Nigerian Building Society (NBS), the precursor of the Federal Mortgage Bank of Nigeria (FMBN). The NBS, a joint venture involving the British, Federal and the then Eastern Nigerian Governments, was a limited liability company carrying on primary mortgage business by granting home mortgage loans to individuals financed through savings mobilized from the public. It operated for many years in Lagos but its impact was rather insignificant beyond its domicile.

Following the adoption of the McPherson Constitution in 1954 which allowed internal self governance for the regions, Regional (and later State) Governments established Housing Corporations to begin the process of developing planned layouts and building houses for sale to their citizens. Such lay-outs and housing developments were most notable in regional headquarters such as Ibadan, Benin, Enugu and Kaduna as well as a few other large cities such as Ikeja, Kano, and Port Harcourt. The Housing Corporations served both as estate developers and the provider of mortgage finance. But again, within less than two decades, the finance for these schemes dried up and most Corporations became somewhat somnolent in responding to the housing needs of their citizens.

Distortions emerged in the housing finance system when, in a measure ostensibly designed to make loans affordable, the NBS was directed in 1976 to reduce the interest rate on its mortgage operations to 3% from 10%. This was in an operating environment that the institution was offering a market directed interest of 6% to its savings depositors. As a result, the institution became unable to compete in the savings market, and thus began a long era (even after its later transformation into Federal Mortgage Bank of Nigeria) of resorting to operating subvention from government. The bank's moderate interest in mortgage lending also became shrunken by the regulatory credit policy.

Following the promulgation of the Indigenization Act of 1973, the Federal Government acquired a 100% ownership of the NBS and transformed it into the

Federal Mortgage Bank of Nigeria (FMBN) with a legal backing in Decree 7 of 1977. A major goal of this measure was to enhance access to mortgage finance by using the FMBN for the effective implementation of the subsidized housing credit policy and for spreading mortgage lending nationwide.

Like its predecessor NBS, the FMBN that emerged from the acquisition busied itself with retail mortgage business although it was also empowered to issue debt instruments to raise capital market funds as well as promote the establishment of and supervise primary mortgage institutions.

The weakness of the housing financing policy later manifested in an acute shortage of long term funds for mortgage financing and weak institutional framework for mortgage loan origination as only the FMBN was virtually doing primary lending. Meanwhile, its reliance on depository funding (and government grants) severely circumscribed the quantum of resources available to it for intervention in housing finance. This necessitated a new housing policy that was formally launched in 1991 which was the instrument that triggered the following changes:

a In 1989, FMBN became an apex authority for licensing, regulating and supervising primary mortgage institutions following the promulgation of the Mortgage Institutions Act (Decree No. 53 of 1989) which set the stage for a two-tier institutional structure for the housing finance system and for the private sector to set up primary mortgage institutions (PMIs) in different parts of the country. The number of PMIs in operation in the country was about 300 in the 90s; but had dropped to 83 at the end of 2004 according to the CBN Annual Report 2004. The supervisory role was ceded to the Central Bank of Nigeria in 1997 via an administrative fiat by the then ruling military government.

b In 1992, the bank assumed the collecting, administering and managing of the National Housing Fund (NHF) into which all Nigerian workers earning N3,000 per annum and above were to contribute 21/2 percent of their monthly salary as a means of ensuring their access to affordable housing. The establishment of the Fund was backed by Decree No. 3 of 1992.

c By a deconsolidation process that began in 1993, the FMBN unbundled its retail mortgage business as Federal Mortgage Finance Limited to retain the former as a wholesale and secondary mortgage finance institution which relied on funds from the NHF.

D Promulgation of an enabling Act for FMBN's above roles in the form of Decree No. 82 of 1993.

However, the rise in the shortage of housing particularly urban housing revealed the failure of the housing strategies hitherto employed, including the 1991 housing policy. A diagnostic study by experts attributed the problem to the inadequacies characteristic of the housing delivery system; particularly the weak housing financing method occasioned by the reliance on depository arrangements particularly the NHF; the lack of robust mortgage finance and the absence of mortgage friendly legislation (or the existence of unfriendly ones like the restrictions on mortgage transactions imposed by the Land Use Act of 1978 such as the cumbersome land titling process and the requirement of a State Governor's consent for a mortgage transaction).

...JO REFORMS:

As a result of the foregoing lapses, the Obasanjo Administration introduced the current Policy on Urban Development and Housing for the country in 2002. The policy is essentially a product of the Federal Government White Papers on the reports of two committees it had set up to address the problems of housing in Nigeria: the Presidential Committee on Urban Development and Housing under Governor Peter Odili of Rivers State in 2001 and the Panel on the Merger of Federal Mortgage Bank of Nigeria and Federal Mortgage Finance Limited in 2000.

The new policy represents concerted efforts by government to resolve the housing problem in Nigeria. The policy has introduced major innovations designed to achieve its major desire of ensuring Nigerians' ownership of or access to decent and affordable housing made possible by mortgage enabling regulatory and legislative frameworks, mass housing production by the private sector and robust mortgage finance.

With regard to the latter, the focus of the Federal Government is on developing a strong secondary mortgage financing mechanism based both on the NHF and the mobilization of additional funds from the nation's capital market. This makes the Federal Mortgage Bank of Nigeria central to meeting the robust mortgage finance demand of the policy.

The Bank has thus been restructured into a Federal Government-sponsored enterprise (FGSE) whose main function is secondary mortgage and capital market operations. The transformation of FMBN into a secondary mortgage financial institution took effect from 2004. Other highlights of the reforms to re-position the housing sector for the realization of the new housing policy include:

The re-capitalization of FMBN (entailing an increase of its capital base from N100 million to N5 billion) under a new ownership structure comprising Federal Government 50%, Central Bank of Nigeria 30% and Nigerian Social Insurance Trust Fund 20%.

New organizational structure within FMBN for secondary mortgage and capital market operations.

Appointment of a new Management led by Mr. Tanimu Yakubu as Managing Director and Board (Presidential Technical Board) chaired by renowned Professor Akin Mabogunje in 2003 and 2004 respectively.

The re-engineering and improved management of the NHF. Part of the re-engineering is a legislative proposal to transform the Fund to a trust fund National Housing Trust Fund under a Board of Trustees.

The review and initiation of housing finance related laws to make them mortgage friendly.

Establishment of the Federal Ministry of Housing and Urban Development in July 2003 to formulate policies on housing.

MAIN FUNCTIONS OF FMBN

In line with the Servicom Charter introduced by the Obasanjo Administration, the Federal Mortgage Bank of Nigeria (FMBN) has as its vision and mission the need -:

To operate as a dynamic secondary mortgage institution able to meet the financing needs of the nation's emerging mortgage industry; and

To supply the mortgage markets with sustainable liquidity for the advancement of home-ownership among Nigerians anchored on mortgage financing.

To this end, the principal functions of the reformed FMBN are:

1. linking the capital market with the mortgage markets;

2. encouraging the emergence and promoting the growth of viable primary mortgage loan originators to serve the needs of housing delivery in Nigeria; and,

3. collecting and managing the National Housing Trust Fund (NHTF) in accordance with the provisions of the proposed NHTF Act.

In supplying robust mortgage finance to the housing markets, the Bank, for now, operates two windows of access to funds:

Concessionary Window

The window is funded by the NHF and provides an access to mortgage finance at below market (concessionary or subsidized) rates of interest for the provision of affordable housing to NHF contributors. In this regard, the Bank grants wholesale mortgage credits from the Fund to finance home-ownership programmes of the PMIs and mass housing production by professional estate developers including housing corporations.

The main operations of the window are:

Mobilization of Nigerian workers' statutory contributions of 21/2 percent of their monthly incomes into the NHF. Banks, insurance companies and the Federal Government are also required to contribute to the Fund to augment the contributions by workers. The NHF law stipulates that banks shall invest in the Fund 10% of their loans and advances at an interest rate of 1% above the interest rate payable on current accounts. It is the responsibility of the CBN to deduct the contributions by banks and remit same to FMBN. In addition, every registered insurance company is required to invest a minimum of 20% of its non-life funds and 40% of its life funds in real property development of which not less than 50% shall be paid into the Fund through the FMBN at an interest rate not exceeding 4%. The Federal Government is required to make contributions in both local and foreign currencies to the Fund from time to time. It is hoped that these concessions which have reawakened interest in mortgage finance among Nigerians would be considered to have served their purpose as to pave way for market based rates with a view to link the NHF with the financial markets for sustainability. Otherwise, the lessons of the negative consequences of imposed rates in the 1970s would have been missed.

Wholesale mortgage financing of:

1. Home loan (otherwise known as NHF loan) to PMIs for on-lending to contributors repayable over a maximum of 30 years. The NHF has for long been the main and cheapest source of funds for the mortgage operations of PMIs in Nigeria. A loan granted to a PMI in this context is secured by the perfection of the individual mortgages financed by the loan or occasionally by any or a combination of approved collateral securities (bridging securities) pending the perfection of the mortgages. A loan on-lent to a contributor is secured by a first mortgage on the subject property based on a good title to the property, particularly a Certificate of Occupancy. The loan enables a contributor to build, buy, improve or renovate his own house. The current loan ceiling for a contributor is N5 million.

2. Housing estate development loan to private developers and housing corporations including the Federal Housing Authority (FHA) to build houses at affordable target prices not exceeding N5 million for sale to contributors via the PMIs on a mortgage basis.

Refund of contributions to contributors in line with the NHF law. A contributor who has no outstanding NHF loan and has retired from work having attained the age of 60 years qualifies for a refund of his contributions with accrued interest.

Commercial Window

The window offers an access to robust mortgage finance by healthy mortgage loan originators (including banks and PMIs) and estate developers at commercial terms. The secondary mortgage lending activities of the window are financed mainly by funds raised via the Bank's issuance of mortgage related securities traded on the nation's capital market. Section 6 (1) (b) and (c) of the FMBN Act No. 82 of 1993 has provided for the Bank to sell its own debt securities (debentures or bonds) under FGN guarantees and establishment of a sinking Fund towards the timely redemption of the periodic loan obligations. Such debt instruments are targeted at institutional investors such as pension funds, life funds, banks, insurance companies, etc.

The window's operations have taken off beginning with the Bank's floatation of a N100 billion Bond.

Prior to 2003 when the Bank began implementing the housing reforms of the 2002 housing policy, its performance on the NHF was less than satisfactory while it had been somnolent in performing its secondary mortgage function based on long term funds raised by it from the capital market. However, in the last three years of the reforms, significant improvements have been made by the Bank in the discharge of its mandate as underscored by the following:

Secondary Mortgage and Capital Market Operations

The Bank's preparation to commence the secondary mortgage and capital market operations has reached an advanced stage as it will soon be floating its maiden Bond to raise N100 billion from the capital market in two tranches of N50 billion each. The proceeds of the Bond will be used to finance the sale of Federal Government non-essential houses in Abuja to civil servants in line with the monetization policy. Many consolidated banks and primary mortgage institutions have signed up to participate in loan origination under the FMBN-FGN National Home-ownership Program taking off with the sale of FGN's non-essential housing units in the Federal Capital Territory. Underwriting commitments of N273.5 billion have been received for this Bond. The level of underwriting commitment is expected to reach N300 billion by the time the Bond hit the market. The Bank has also obtained the FGN's guarantee and approval of the following incentives for the Bond:

1. Federal Government of Nigeria shall guarantee the N100 Billion Bond of FMBN in two tranches of N50 billion each.

2. The Bond shall be gazetted thereby qualifying for Trustees Investment.

3. The Bond shall also be treated for investment purposes as a Government security.

4. Investment in the Bond by insurance companies shall be regarded as a permissible investment.

5. Interest income on the Bond shall be treated as non-taxable by the Federal Inland Revenue Service.

6. There shall be no capital gains tax on disposal before or at maturity.

7. Registration and Issuing House Fees by Securities & Exchange Commission shall be reduced to nominal fee not exceeding N10 million.

8. FMBN shall be registered as an issuing house by the Securities & Exchange Commission, subject to the Minister of Finance approving each issue, based on Presidential or Federal Executive Council Authorization. In this initial instance, FMBN should act as a joint issuing house with another reputable approved institution.

9. The Bond shall qualify as an approved investment by Pension Fund Administrators.

10. The single obligor limit for banks shall not apply to their investment in the Bond.

11. Banks' investment in the Bond shall also be exempted from the 1% general loan loss provision.

12. Investment in the Bond by banks shall qualify for investment by SME funds subject to a cap to be advised by the Governor of the Central Bank of Nigeria.

13. Investment by banks in the Bond, being a marketable security, shall also count as part of their liquid assets, subject to a maximum of three (3) year tenor.

Meanwhile, some of the banks and primary mortgage institutions have started using their own resources to originate the mortgage loans under the agreed uniform underwriting standards. As soon as funds are raised from the sale of the N100 billion Bond, the mortgages that the originators hold surplus to their portfolio requirements would be purchased from them by way of refinancing to create fresh liquidity for them. To facilitate this process, mortgage purchase and servicing agreements have been executed with all originators which are interested in the programme. This exercise by itself will herald the commencement of secondary mortgage operations in Nigeria.

NHF Operations

The NHF has undergone operational reforms in the last three years of the housing reforms to re-position it for effectiveness. The management of the Fund is constantly being improved upon with measures taken to make the Fund easily accessible to borrowers. In the period, a reduction of the interest rates on the loans granted from the Fund was effected. Interest on estate loan went down from 15% to 10% and interest on loan to the contributor from 9% to 6% per annum with a longer repayment period of 30 years as against 25 years previously. More lending outlets have been introduced such that private developers, housing corporations and housing cooperatives can also access loans from the Fund for the provision of mass housing.

Besides the foregoing, the Bank's NHF mobilization is now purposeful and result-driven. It involves the following strategies: advocacy visits to relevant major employers of labour in the public and private sectors of the Nigerian economy including State Governments; enlightenment campaigns; making the benefits of NHF more visible especially through an aggressive funding of home-ownership and housing development across the country; and collaboration with the Committees on Housing and Urban Development of both Houses of the National Assembly which led to the organization of a public hearing on NHF defaulters in March 2005.

Consequently, the NHF has recorded improvements on all its performance indices as attested to by the following:

1. More State Governments have either joined or resumed their participation in the scheme by deducting and remitting their employees' contributions to the Bank in line with the NHF law. The number of States participating has risen to 15 as at September 2005, namely: Katsina, Kaduna, Kwara, Osun, Benue, Nasarawa, Gombe, Ebonyi, Delta, Rivers, Yobe, Abia, Bauchi, Jigawa and Kebbi; besides the FCT. This is in sharp contrast to only two States: Abia and Bauchi (in addition to the FCT), that were in the scheme as at 2002, before the reforms. All the big banks with the notable exception of Union Bank of Nigeria Plc have also returned to the NHF to underscore improved corporate governance. And so have the uniformed armed forces, including the Nigeria Police. The bulk of the afore-mentioned expansion in NHF contribution base was achieved in 2005.

As a result, the cumulative numbers of employers and contributors registered under the scheme as at September 2005 were 18,193 and 2,313,484 respectively; compared to 17,570 employers and 1,884,685 contributors registered as at December 2002. In the first nine months of 2005, 150 employers and 354,248 contributors were registered.

2. The cumulative NHF collection rose to N18,164,212,426 as at September 2005 compared to the pre-reform or first decade (1992-2002) figure of N10,359,236,380.00, representing a growth of over 75% during the less than 3 years of the housing reforms. The total collection in the first nine months of 2005 was N3,529,597,485.00, representing 70.6% of the year's target of N5 billion (up from N4 billion for 2004) and an increase of 96% over the total collection of N1,797,984,514 for the same period last year. The current average monthly collection is about N400 million.

3. By the end of September 2005, an aggregate NHF loan of N7,046,092,367 was approved to 37 PMIs based on the applications submitted on behalf of 5,250 contributors; out of which N3,628,587,692 had been disbursed via 29 PMIs to 3,915 contributors (Table 1). This is against N1,796,169,808 approved in the first decade of the Fund (1992-2002) based on the applications submitted by 28 PMIs on behalf of 2,995 contributors; out of which N1,327,753,252 was disbursed to 2,347 contributors via 24 PMIs. A 169.6% increase in loan disbursement to contributors was therefore achieved in less than three years of the reforms. The value of approved loans in the first 9 months of 2005 was N2,422,491,116 to 14 PMIs based on the applications forwarded to the Bank on behalf of 760 contributors. In the same period, loans valued N661,543,498 was disbursed via 9 PMIs to 248 contributors.

4. Aggregate estate loan valued N19,851,508,504 to 46 developers for the construction of 11,216 housing units across the country had been approved as at September 2005. Out of this, N7,617,442,817 was disbursed to finance 31 projects to produce 7,106 housing units (Table 2). A breakdown of the disbursed loan figure shows that N3,204,304,108 was granted to State Housing Corporations and the FHA to develop 3,045 housing units while N4,413,138,708 was granted to private developers for 4,061 units. This is a vast improvement on the pre-reform approved estate loan total of N762,949,237 as at 2002 for 662 housing units out of which N406,500,000 was disbursed for four projects for the construction of 454 housing units. Thus, 95.6% of the overall estate loan disbursement since the inception of the NHF scheme was achieved in the three years of the reforms. In the first nine months of 2005, the approved estate loans amounted to N5,190,852,380 for 2,412 housing units. In the same period the sum of N1,948,428,698.00 was disbursed for 2,874 units.

5. A cumulative sum of N300,945,946 was disbursed to 26,405 ceding contributors, being settled NHF refund claims with accrued interests, as at September 2005. Only N50,605,107 had been so cumulatively disbursed to 9,948 contributors at the end of 2002, before the outset of the reforms as the Bank then had fallen in several years arrears on the payment of refund claims. Thus, N250,340,839 was refunded to 16,457 contributors in the last two years and nine months of the reforms or an average monthly refund of N7,586,086 to 500 ceding contributors.

The Public Private Partnership Programme was conceived to promote Housing Delivery Nationwide. So far, twenty one (21) investors have signed memorandum of understanding (MOUs) with the Ministry as shown in table 3.

The handing over of sites to developers who signed MOUs and Development lease Agreement with the Ministry commenced on the 8th of November, 2005. To date, eleven of the sites have been formally handed over at the following locations:

Asaba, Delta State,
Yenegoa, Bayelsa State,
Akure, Ondo State,
Bofa Village, Ibadan Oyo State
Barnawa, Kaduna State
Dong Village, Plateau State,
Behind Federal Secretariat, Port Harcourt, Rivers State
Kpakungu, Minna, Niger State
Kuje, Abuja, FCT
Lokoja, Kogi State
Gombe, Gombe State

The Ministry of Housing and Urban Development has made concrete arrangement to ensure the sustainability of the programme nationwide.

A pilot scheme consisting of 3 semi-detached 2 Bedroom Bungalows using "Hydraform" consolidated laterite interlocking bricks was embarked upon at Kuje FCT by the Ministry of Housing and Urban Development to demonstrate the use of local building materials to produce low cost housing units that would be affordable to the vast majority of Nigerians. The demonstration project which was executed through Direct Labour was targeted at low income civil servants. The project has been completed and would soon be commissioned. The project is expected to be replicated all over the country.

The major shortcomings and the associated consequences of the past approaches to the delivery of housing finance and housing in Nigeria can be identified as follows:

i The informal private sector i.e. single unit developers have traditionally provided the bulk of total housing production. This approach is characterized by home-ownership on a "cash-and-carry" rather than mortgage basis. This has prevented the evolution of a mortgage culture in Nigeria and also hindered the use of mortgage financing as a vehicle for effectively channeling the glut of funds in the informal sector to the formal sector for the overall health of the economy.

ii Within the formal (multi-unit construction) segment, the housing industry witnessed the pre-eminence of government over the private sector in housing production for decades. The effectiveness of this approach was undermined by budgetary and other constraints leading to under-achievement of housing targets, abandoned housing projects and a failure to raise the home-ownership rate. Lack of proper linkage of the housing programmes to mortgage financing, the problem of affordability occasioned by the sporadic review of house prices, coupled with government failure to deliver houses after taking down payments from mortgagors, which characterized the house sale exercise started by Alhaji Lateef Jakande as the then Minister of Works and Housing under the National Housing Program in the mid 90s, had worsened the housing finance prospects in the country.

iii An ineffective housing finance system driven by a depository arrangement comprising:

Retail mortgage operations by the PMIs whose establishment Act allows them to source long term savings from the public which they failed to do as they relied more on funds from the NHF to finance mortgage operation. The 71 PMIs that rendered statutory returns to the CBN, out of the 83 PMIs in operation as at December 2004, had only a total balance sheet size of N81.2 billion with most of it deployed in non-core financing operations. The PMIs' activities are felt in a just handful of cities like Lagos and Abuja.

Wholesale mortgage financing by FMBN funded by the NHF to fund home-ownership programmes of the PMIs and mass housing production by professional estate developers including housing corporations.

Meagre mortgage lending under commercial terms by banks and PMIs.

iv The inherent inadequacy of the NHF, which has been the main source of funds for the nation's mortgage system for years, to supply the huge housing finance demand of most Nigerians as it relies on the accretions of meagre statutorily compulsory long term savings. To underscore this, the NHF had as at September 2005 an outstanding commitment of over N15 billion as undisbursed approved loans on both facilities granted from it against a net collection of less than N7 billion. This is besides the outstanding applications valued at N44 billion.

v The housing financing capacity of the Fund is further curtailed by the refusal by banks and insurance companies to invest in the Fund as required by the law. The CBN, whose responsibility it is to deduct the contributions by banks, did not show any enthusiasm to comply with the law. On its own part, failure of the FMBN to charge and pay market rates on funds managed by it, has robbed it of the moral authority to take on the CBN. Besides, the effectiveness of the NHF was hindered by such additional constraints as the problems associated with the PMIs as on-lenders of NHF loan, the affordability constraint, the shortage of houses for NHF mortgage creation as well as the restriction of access to loans imposed by the land titling process and Governor's statutory consents to mortgage and assign, both being the shortcomings arising from the implementation of the Land Use Act of 1978.

vi Absence, until recently, of the structures (legal, regulatory and institutional) for robust mortgage finance which requires a deliberate linkage of the capital market with the mortgage market.

vii The secondary mortgage market has been absent while true mortgage originations by primary market operators have been abysmally low because of meagre financial resources mobilized by the PMIs and lack of interest of the universal banks in mortgage business, until recently.

Less than 1% of the conventional banks' overall lending portfolio of about N2 trillion in 2004 is in mortgage loans. Less than 0.5% of Nigeria's Gross Domestic Product (GDP) is accounted for by mortgage loans.

This contrasts negatively with the primacy of mortgage loans in both advanced and the leading emerging markets where they account for not less than 50% of banks risk assets and up to 25% of the GDP.

On the part of the FMBN, there had been a delay by the Bank under its past Managements to commence secondary mortgage and capital market operations as both its earlier and current enabling laws, the FMBN laws of 1977 and 1993 respectively, had since provided the legal backing for these operations. For too long, the Bank's operational focus was on primary mortgage lending and later the NHF.

In effect, a period of 25 years (1977-2002) was to elapse to awaken the Bank to its mandate on secondary mortgage and capital market operations. Among the major causes of this operational delay were the low capitalization of the Bank, which before now was only N100 million, and the absence of the capacity within the Bank for secondary mortgage and capital market operations especially as the requisite organizational structure and staff complement have been lacking.

A grossly insufficient legal framework comprising mainly of mortgage peripheral legislations as:

The Mortgage Institutions Law (Decree No. 53 of 1989) prescribing operating, regulatory and supervisory guidelines for Primary Mortgage Institutions (PMIs).

The NHF Law (Decree No. 3 of 1992) establishing a contributory savings scheme managed and administered by FMBN which has provided the cheapest funding for mortgage operations in Nigeria.

The FMBN Law (Decree No. 82 of 1993).

Absence of critical mortgage lending boosting laws; examples include securitization laws and a mechanism for non-judicial foreclosure to deal with the protracted litigations involved in mortgage recovery. In addition, there are suffocating constraints on land titling, imposed by the Land Use Act of 1978 on mortgage transactions. The Act vests the custody of land in the State Governors whose exercise of this power often prevents free access and titles to land. The processing of Certificate of Occupancy is slow, expensive and cumbersome. A substantial portion of the nation's housing stock thus constitutes dead capital for lack of legal titles for mortgage use. Besides, the requirement of Governor's consent under SS. 21 & 22 of the Act impedes mortgage transactions. It is the contention of the FMBN that a simple registration with the Land Authorities as against the requirement of a Governor's approval would suffice.

❖ The policy framework does not accord sufficient accent to mortgage business. For example:

- The potential of providing monetary and fiscal policy support for mortgage loans is not explored by the monetary authorities. Consequently, mortgage lending is treated like any other lending activity, which is at variance with the practice in economies with more respectable home ownership rates. (Less capital could be required for the mortgage component of a bank's loan portfolio, mortgage interest income could be made subject to a lower rate of tax than income from other lending activities etc);

- lack of adequate preparation in setting up housing or home-ownership goals annually in every State to address the rising homelessness all over the country;

- lack of standardization of building materials to enhance both safety and affordability;

- lack of enforcement of building codes; and

- lack of provision and providers of mortgage insurance to help low and middle-income classes access mortgage loans.

One more shortcoming of the housing delivery system in use until recently is the unaffordable prices of houses to majority of Nigerian home seekers. This has been attributed to the high cost of housing production arising mainly from the high costs of funds, infrastructure development and building materials which are largely imported. This, coupled with the problem of mortgage affordability because of depressed income levels and widespread poverty in the country, has posed a challenge to housing even to the current effort to provide mass, decent and affordable housing.

The major consequences of these shortcomings are:

The shortage of decent and affordable housing that has left the country with a home-ownership level that is far from respectable. Nigeria has a mind boggling housing deficit, which is estimated to be 12-17 million units. At an average occupancy ratio of six persons per household, this translates to 72-102 million Nigerians that are without homes or decent housing.

A whopping shortfall in the housing capital requirement as the long period of absence of robust mortgage financing mechanisms has resulted in the dearth of long term funds required to finance the provision of housing. For the extent of the housing financing gap to be better appreciated, if affordable houses were to be provided to overcome the housing shortage of 12-17 million units at the rate of N2.6 million each, the financing need of this national undertaking lies between N31 trillion and N44 trillion!

The significance of the mortgage industry and its capacity to turn around the Nigerian economy and strengthen its banking industry and its capital market has been overlooked. A comparison of the financing gap of N31 trillion to N44 trillion with the country's Gross Domestic Product, National Annual Budget and total risk assets in the banking industry would help to appreciate how healthier and wealthier the nation and its citizens would have been if the country had set about to substantially reduce the housing deficit every year. Unemployment, poverty and crimes would have disappeared. Mortgage finance in countries with high home-ownership rate accounts for up to 15% of total employment, and no less than 40% of their GDPs (in sharp contrast to 0.5% of Nigeria's GDP). Mortgage finance has the capacity to lift the market capitalization of all stocks quoted on the Nigerian Stock Exchange from well under N3 trillion to N50 trillion within a decade were this determined to be the time frame within which the housing deficit was to be eliminated, while holding our population growth constant.

Urban housing and orderly urban development have been put under pressure.

Low awareness of how to access mortgage finance.

The most significant of such efforts at a national level was the housing finance strategy of the 1991 housing policy. The strategy was in response to the then paucity of long term funds for housing development caused by:

The under-developed and ill-equipped nature of the housing finance system to mobilize and channel savings to the housing sector.

Rudimentary state of development of primary mortgage institution with the bulk of retail mortgage lending being done by the then Federal Mortgage Bank of Nigeria as opposed to its main function as a wholesale institution.

The constraint to mortgage lending by banks imposed by the maturity structure of their deposits which were largely short term. In other words, banks could not give long-term mortgage loans with predominantly short-term deposits. There was also the problem of differential interest rates for the housing sector compared with such sectors as commerce and industry. As a result, the participation of banks in housing finance delivery was limited.

It was no surprise, therefore, that the thrust of the housing finance strategy was the setting up of vehicles for mobilizing long term funds to match the long-term nature of lending for housing development; particularly through:

a Establishment of primary mortgage institutions by the private sector; and
b Establishment of the National Housing Fund.

The facts earlier provided in this report attest to the failed outcome of this depository housing finance strategy. Both the NHF and the PMIs have been incapable of mobilizing adequate long term funds. No point emphasizes the failure of the 1991 housing policy more than its failure to realize its projected goal to ensure that all Nigerians own or have access to decent housing accommodation at affordable cost by the year 2000. According to the policy document, the nation was to have produced 8 million housing units to meet this goal. However, the housing deficit has risen to a current estimate of 12-17 million units.

The past housing financing strategies being improved by the current housing reforms depended entirely on depository arrangements, relying on the meagre long term savings mobilized through the NHF and augmented by the PMIs. The deficiencies of the depository approach, as already highlighted, have resulted in a large deficit of long term funds for housing. As already noted, the financing need to redress this housing shortage based on affordable housing lies between N31 trillion and N44 trillion. The major weakness of the past housing finance systems was the lack of a deliberate effort at linking the housing finance sector to the capital market, and at integrating the sector into the nation's overall financial system, for a robust mortgage finance environment.

This is the thrust of the new housing finance strategy of the current housing policy to provide the robust funds required to prosecute mass housing production through public private partnership which the policy recognizes is needed to redress the huge housing shortage. The new robust mortgage finance system being facilitated by the current reforms is driven by the following:

a Discharge of secondary mortgage and capital market operations by the Federal Mortgage Bank of Nigeria. Long term funds are to be raised by the Bank from the capital market on a regular basis by selling debt instruments (Bonds, Mortgage Backed Securities and so on) to institutional investors. The funds so raised will be used to finance secondary mortgage lending to virile mortgage originators (banks and

PMIs) to create additional home mortgage loans for individual Nigerians; as well as wholesale mortgage lending to housing developers. The operations, when fully entrenched, would ensure a constant flow of long term funds from the capital market to the housing markets and ultimately result in liquidity in the housing finance system. Some detail has been given earlier on the current effort of the FMBN at commencing the secondary mortgage and capital market operations.

b Provision of guarantees and other incentives by the Federal Government for FMBN securities to enable the Bank raise capital market funds easily and at a low cost to engender a low interest rate in the nation's mortgage system.

c Mortgage loan origination by banks and PMIs using funds mobilized by them and capital market funds sourced from FMBN via secondary mortgage transactions. The ongoing consolidation of the banks' and PMIs' capital bases is re-positioning these institutions for this role.

d Institutional investment in mortgage securities by Banks, Insurance Companies (i.e. their life funds), Pension Fund Administrators, Trust Funds, and the like. Investment in mortgage securities will be facilitated by the reformed pension system and the financial sector and legislative reforms.

e Establishment of mortgage enabling legal and regulatory frameworks. To this end, there is an ongoing effort to amend the relevant sections of the Land Use Act and enact laws on securitization and foreclosure to pave the way for new mortgage lending boosting laws. When the expected laws become operational:

i Secondary mortgage and capital market operations will be facilitated.

ii Investible funds in mortgage securities will be boosted.

iii Mortgage transactions will be facilitated by efficient land titling and registration processes and elimination of Governor's consent to mortgage.

iv. It will be possible to foreclose easily without going through protracted litigations in loan recoveries.

f Mass production of decent and affordable houses by the private sector through synergies between the housing producers and building material producers anchored on improved liquidity in the mortgage markets.

The strength of the current housing finance approach lies in its ability to channel funds continuously from the capital market to the housing sector. Funds in the capital market are of a long- term nature and in huge amounts. This suits the long-term nature of lending for housing development. The nation's housing finance deficit is too large to be resolved by a continued reliance on the depository housing finance system and requires a superior approach based on capital market funding. Countries with high home-ownership rates such as the USA, with a home-ownership rate of over 70%, have achieved the feat by deploying capital market funds into housing.

8.0 [illegible] OF THE CURRENT HOUSING SECTOR REFORMS

8.1 The housing financing strategy of the reforms is able to deliver robust mortgage finance through secondary mortgage and capital market operations to effectively deal with the huge housing deficit and give Nigeria a respectable home-ownership rate in the near future.

8.2 Relying on the capital market rather than depository funding, a responsive mortgage system will ultimately be established which will be readily accessible for home-ownership loans. First home origination will be broadened by bringing universal banks, life funds, insurance companies and pension fund into the primary mortgage market for the benefit of Nigerians seeking to be homeowners.

8.3 The capital market and the financial system as a whole will be deepened by an upsurge expected in the trading of mortgage instruments.

8.4 The reforms will lead to the establishment of a strong mortgage enabling legal system.

8.5 The reforms offer an opportunity to exploit the potential of the mortgage industry to turn around the Nigerian economy. The industry has associated multiplier effects which contribute to the improvement of the macro-economic indices such as the GDP, unemployment rate, etc. Since it advent three years ago, the housing reforms have stimulated high levels of activities in mortgage financing and housing construction from the NHF window to the improvement of the Nigerian economy.

Though the housing sector reforms of the Obasanjo Administration started in 2003, the nation is being re-positioned for a strong and responsive mortgage financing system pivoted by the discharge of secondary mortgage and capital market operations by the Federal Mortgage Bank of Nigeria and supported by mortgage enabling legislations as well as mass housing production by the private sector. By repeated floatations of mortgage-backed bonds by FMBN for sale to investors on the nation's capital market, long term funds would be made available for the lending operations in the secondary and primary mortgage markets. This will not only help to develop the mortgage markets but will also lead to the emergence and development of the secondary mortgage market for the first time in Nigeria. The Bank's effort to float a N100 billion Bond by the end of 2005 to finance the sale of FGN's non-essential houses in Abuja to civil servants and the public marks the beginning of a robust mortgage finance system in Nigeria.

Thus, for the first time, the nation now has an emerging housing finance system deliberately designed to tackle its huge housing deficit and give it a respectable home-ownership rate. In the new mortgage finance system that is emerging the Federal Mortgage Bank of Nigeria will be the ultimate provider of liquidity to first home originators through secondary mortgage and capital market operations.

TABLE 1:NHF LOANS ON-LENT THROUGH PRIMARY MORTGAGE INSTITUTIONS (PMIS) TO CONTRIBUTORS AS AT SEPTEMBER 2005.

S/N	Name of Primary Mortgage Institution	Head Office Location	Loan Amount Disbursed ₦	No. of Beneficiaries
1	Abbey Building Society Ltd	Lagos	3,238,400	4
2	Accord Savings & Loans Ltd	Lagos	2,960,000	3
3	Akwa Savings & Loans Ltd	Uyo	6,613,582	23
4	Anambra Home Ownership Co. Ltd	Awka	13,632,540	15
5	Aso Savings & Loans Ltd.	Abuja	279,456,156	310
6	Atiba Iyalamu Savings & Loans Ltd	Ilorin	1,564,400	2
7	Benhouse Building Society Ltd	Makurdi	132,961,284	140
8	Coop Savings & Loans Ltd	Ibadan	222,528,425	173
9	Credence Savings & Loans Ltd	Lagos	1,177,562	1
10	Dala Building Society Ltd	Kano	14,763,382	20
11	Delta Building Society Ltd	Asaba	35,700,000	13
12	Finacorp Building Society Ltd	Lagos	203,037,638	64
13	First Capital Savings & Loans Ltd	Jos	8,092,864	19
14	Guardian Trust Savings & Loans Ltd	Lagos	158,992	1
15	Hallmark Homes Ltd	Lagos	163,650,000	45
16	Jigawa Savings & Loans Ltd	Maigatari	312,460,345	1044
17	Kebbi State Homes Savings & Loans Ltd	Birnin Kebbi	21,022,664	45
18	Kogi Savings & Loans Ltd	Lokoja	13,047,950	7
19	Lagoon Home Savings & Loans	Lagos	10,165,087	4
20	Lagos Building Investment Co. Ltd	Lagos	20,578,499	23
21	Nigerian Army Housing Scheme	Lagos	521,600,220	859
22	Oasis Savings & Loans Ltd	Lagos	5,000,000	1
23	Partnership Savings & Loans Ltd	Lagos	151,800,000	44
24	Royal Savings & Loans Ltd	Effurun, Delta State	75,309,241	59
25	Sakkwato Savings & Loans Ltd	Sokoto	8,132,668	45
26	Stallion Homes Savings & Loans Ltd	Lagos	560,349,005	291
27	Union Homes Savings & Loans Ltd	Lagos	678,705,874	439
28	Yankari Savings & Loans Ltd	Bauchi	144,903, 660	214
29	Yobe Savings & Loans Ltd	Damaturu	15,977,154	7
	Total		**3,628,587,692**	**3915**

TABLE 2:NHF ESTATE DEVELOPMENT LOAN DISBURSEMENTS AS AT SEPTEMBER 2005

No of Projects	Government Housing Development Agencies	Project Location	Loan Amount Disbursed ₦	No. of Housing Units
1	Abia State Housing & Prop. Dev.	Aba	385,000,000.00	180
2	Bauchi State Housing Authority	Bauchi	356,449,237.00	208
3	Benue Investment Prop. Corp.	Makurdi	159,194,602.00	247
4	Edo Property Dev. Authority	Benin City	200,000,000.00	256
5	Federal Housing Authority (FHA)	Obada - Oko , Abeokuta	437,474,272.14	251
6	Jigawa State Housing Authority	Dutse	147,419,053.00	230
7	Kaduna State Housing Authority	Kaduna	306,946,238.30	285
8	Katsina State Housing Authority	Katsina	599,644,671.20	272
9	LBIC Ltd	Lagos	84,000,000.00	84
10	Taraba Investment & Prop. Dev.	Jalingo	228,307,934.72	176
11	Yobe Housing Prop. & Dev.	Damaturu	299,868,100.00	856
	Sub Total		**3,204,304,108.36**	**3,045**
	Private Developers			
12	Ata -isi Suppliers & Servs. Co. Ltd	Cross River	216,366,155.60	250
13	Cambial Limited	Kuje FCT	279,840,000.00	200
14	Citec Inter. Ltd	Abuja	1,109,600,000.00	1,000
15	Coop Savings & Loans Ltd	Abuja	50,000,000.00	54
16	CT & P Construction Ltd	P/Harcourt	175,011,385.00	73
17	Efab Properties Ltd.	Abuja	390,858,869.00	354
18	Hallmark Homes Ltd	Lagos	72,500,000.00	60
19	Imani & Sons Nig. Ltd	Mararaba, Nasarawa St	166,517,986.20	140
20	Hausen Nig. Ltd	Jos	42,000,000.00	30
21	Joe Bandico & Brothers	Makurdi	18,044,000.00	11
22	Modula Ltd	Abuja	201,407,760.00	471
23	Same Global System Ltd	Abuja	430,958,610.00	288
24	Scan Homes Nig. Ltd	Lagos	250,000,000.00	334
25	Shelter Concept Ltd	Abuja	164,696,000.00	100
26	Shelter Initiative Ltd	Abuja	189,700,000.00	50
27	Sintax Ltd	Zuba, Niger State	255,910,998.40	230
	Sparklight Prop. Dev. Corp.			
28	(A)	Abuja	55,819,674.10	29
29	(B)	Abeokuta	110,390,082.10	77
30	Solid Homes Ltd	FCT	138,243,120.56	220
31	Yah-Wahab Construction Co. Ltd	Osita, Ogun State	95,274,068.00	90
	Sub Total		**4,413,138,708.96**	**4,061**
	Grand Total		**7,617,442,817.32**	7,106

S/No	NAME OF INVESTOR	DETAILS
1.	African American Designed Associates	12 Ha Landi in Asaba, Delta State to develop 201 units of Semi -Detached Bungalows.
2.	Afro-Stuff Nig. Ltd/ Precise Builders Nig. Ltd.	33 Ha Landi in Akure, Ondo State to develop 632 units of 2-Bedroom Semi detached and 3-Bungalows. detached Bedroom
3.	Archcon Nig. Ltd.	3.5 Ha land in Barnawa, Kaduna, Kaduna State, to develop 100 units semi -detached bungalows
4.	Arhistroi Nig. Ltd.	5 Ha land in Barnawa, Kaduna State to develop 103 units
5.	Baytex Ventures	15 ha land in Rumudu ru, Port Harcourt, Rivers State to develop 140 units of 4 bedroom detached and semi detached duplexes
6.	BNTI Ltd	5 Ha land on Dong Village, Plateau State, to develop 80 units of 2 and 3 bedroom detached bungalows.
7.	Conau (Nig. Ltd)	15 ha land in Rumu duru, Port Harcourt, Rivers State to develop 120 units of 3 and 4 bedroom duplexes
8.	Dansanto Nig. Ltd	10 Ha Land in Dong village, Jos, Plateau State to develop 190 units of 2 bedroom semi detached and 3-bedroom detached bungalows.
9.	El-Cortez Konsult Ltd	20 Ha land in Osogbo, Osun State for development of 40 units of 2,3 and 4 bedroom semi detached bungalows duplexes
10	Enship Limited	1.156 Ha land in Lokoja, Kogi State to develop 6 units of 2 and 3 bedroom semi-detached bungalows and completion of 20 units of abandoned prototype houses.
11.	Esmot Nig. Ltd	5 Ha land in Barnawa, Kaduna, Kaduna State to develop 71 units of semi-detached bungalows and duplexes
12.	Gombe State Investment and Property Development CO. Ltd.	4.415 ha land in Dukku Road/Bye Pass, Gombe State to develop 500 housing units of various categories.
13.	Henbori Nig. Ltd	50 Ha land in Azikoro, Yenogoa, Bayelsa State to develop 752 units of 3,4 and 5 bedroom duplexes
14	Hydraform Engineering Nig. Ltd	15 ha land in Kuje FCT to develop 180 units of semi-detached bungalows using estabilized earth technology
15.	MBS Property Nig. Ltd.	1.5 Ha land behind Federal Secretariat, Port Hacourt, Rivrs state to develop 42 units of luxury apartments
16.	Mamko Investment Ltd.	6 Ha land in Dong village, Jos
17.	Ni'imaa Shelters Ltd.	3- Ha land in Kpakungu, Minna, Niger State to develop 250 units of 2-bedroom semi detached and 3-bedroom detached bungalows

For further information, please contact:
Production, Publications and Documentation Department
Federal Ministry of Information and National Orientation
Radio House, Abuja.
Tel: +**234-9-2346355**
E-mail: **fmippd@nigeria.gov.ng; fedinfo_ppd@yahoo.com**

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Tel: *+234-9-2346355* ***E-mail:*** *fmippd@nigeria.gov.ng; fedinfo_ppd@yahoo.com*