

Connecting the Dots in the Housing Eco-System of Nigeria

Presented by

*Chamberlain Peterside Ph.D
(CEO, Xcellon Capital Advisors Ltd)*



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Overview of the Nigerian Housing Market

The housing sector currently contributes less than 1.6% to the nation's GDP; far below the housing market in the United States where the sector contributes more than 6% to the country's GDP

Nigeria's housing shortfall alone is around 17 million units

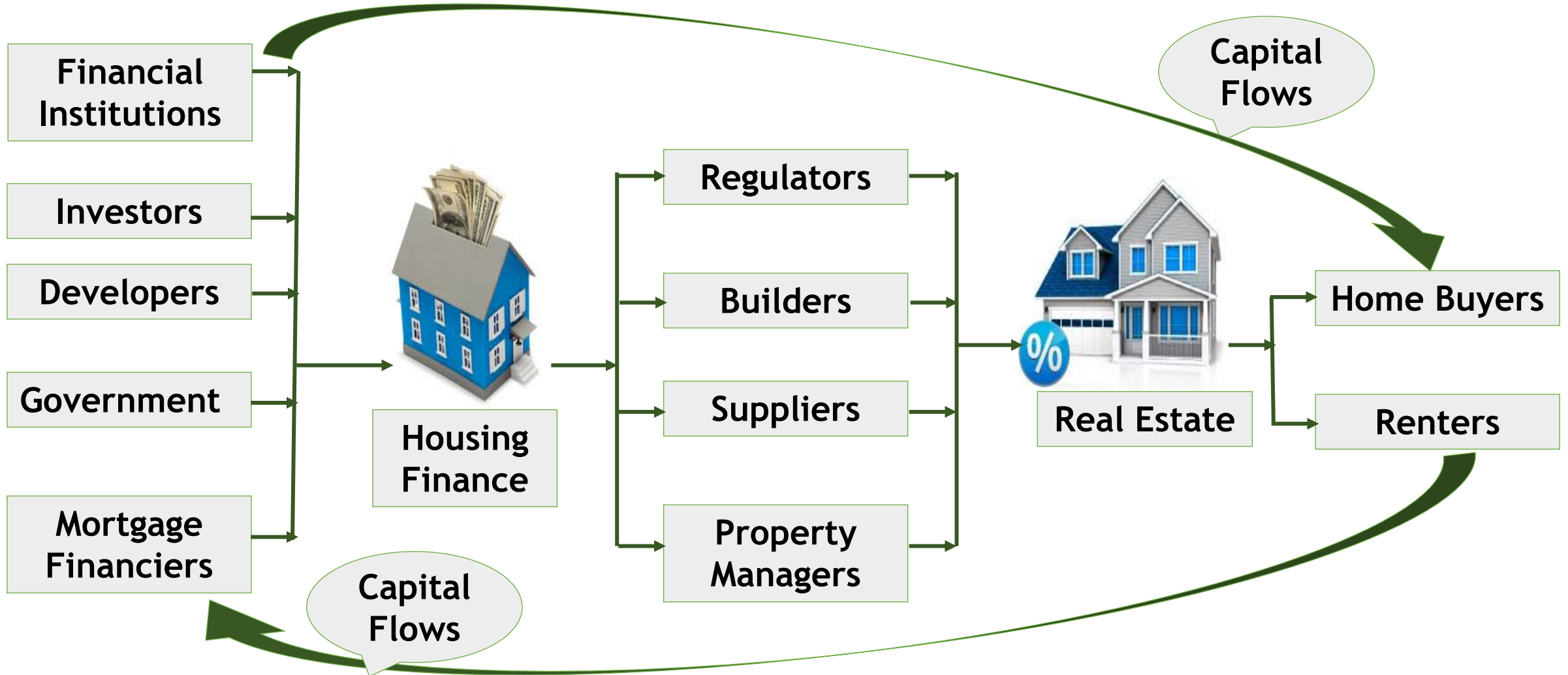
Home ownership levels are exceedingly low, with around 85% of the urban population living in rented accommodation.

Only 2% of Nigerians over the age of 15 have a loan from a financial institution and almost none (0.6%) have an outstanding loan to purchase a home (World Bank)

Borrowing for home construction is still at low levels, at 1.7%

Non-availability of long term capital to boost mortgages remains the major challenge crippling the country's housing market

Nigeria Housing Eco-System



State of Affairs and Impediments to Housing Market Growth in Nigeria

State of Affairs

People, cooperatives and agencies established to support housing provision source mortgages from commercial banks

Commercial Banks are unable to provide appropriate tenures on mortgages, making them unfeasibly expensive (more than 23%) for the majority of Nigerians

The lower end of the residential market struggles to meet demand given the poor land ownership structure and inability of the government to allocate land for residential development

Major Impediments

Selection and credit rationing in favour of high income segment of the housing market by the Mortgage Institutions retard the growth of the middle to low income segment of the market

Mortgage/commercial Banks are limited in the collateral they can offset mortgage with; thereby charge higher rates

Lack of well-defined legal procedures for enforcing claims, curing defaults and evicting former owners of foreclosed property stunts development of housing finance

Roles of Public and Private Institutions in the Growth Process



Encourage Pension Funds to invest in Collateralized Mortgage Obligation (CMO) and REIT instruments



Standardization of Mortgage Lending process in Nigeria, beginning from loan origination, underwriting, servicing, and foreclosures



Streamline and modernize regulations from the design, registration, structuring and distribution of CMO and REITs



Develop framework for affordable housing production, to lower cost of design, construction and management of the properties



Intervention through direct and indirect subsidization and market regulation by fiat will spur the development mortgage financing and subsequently the housing market



Radically reform the Land Use Act and land tenure system in Nigeria

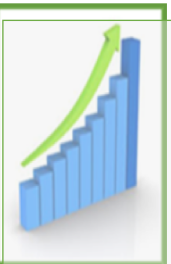
Roles of Public and Private Institutions in the Growth Process....Contd.



Financial institutions to provide longer-term funding for the housing sector and investment in the sector through securitization



Government should formulate policies that will be more conducive to home mortgage lending with primary focus on middle to low income areas that have been previously underserved by the financial system



Commercial Banks should use their securities affiliates to participate in underwriting debt securities issued by mortgage refinancing firms, using their balance sheet



Complete overhaul of the mortgage with the participation of existing institutions



Application of innovative funding strategies such as Elongated Indexed Mortgage (EIM) Loan scheme

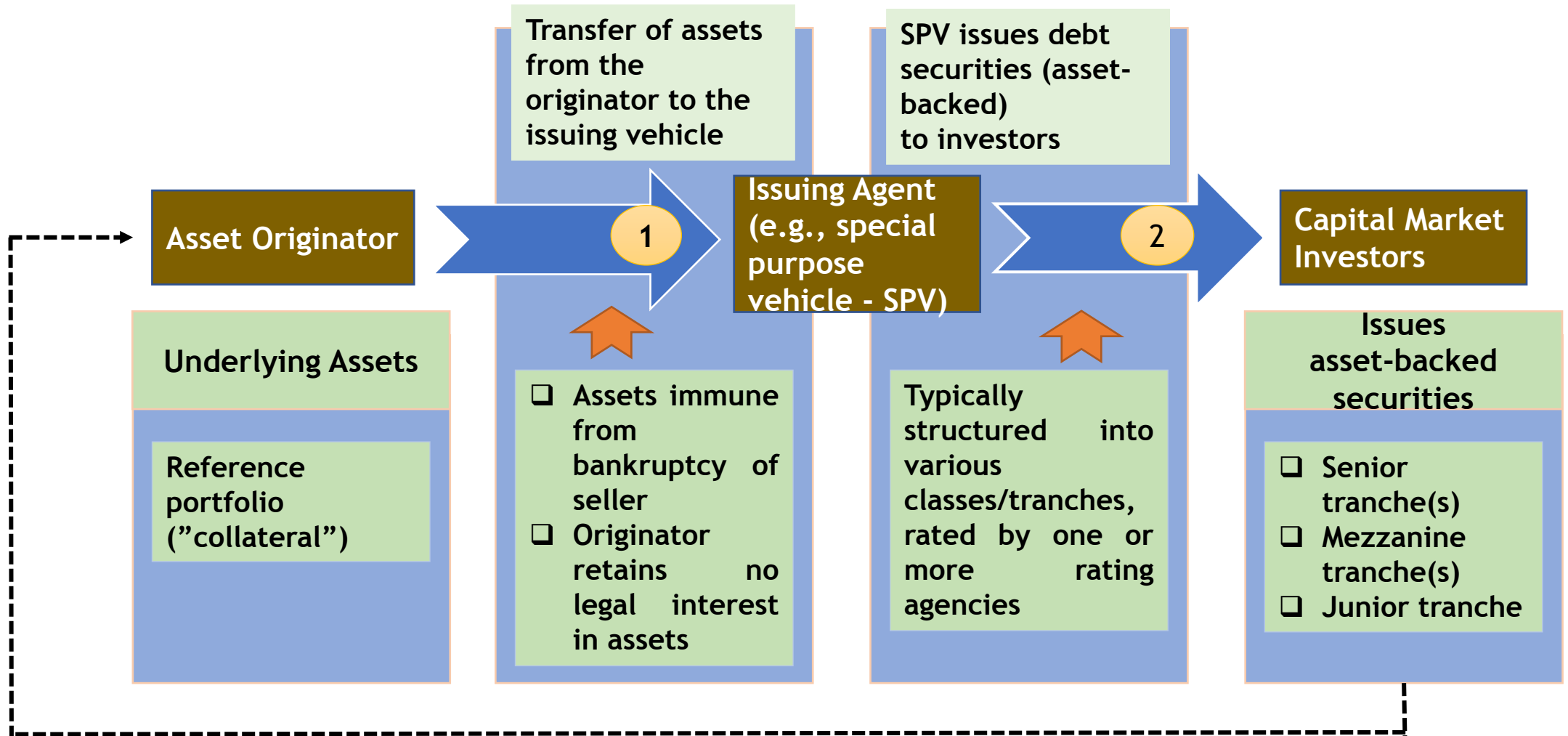
Connecting the Dots - Securitization and Collateralization

Securitization is the process of taking an illiquid asset, or group of assets, and through financial engineering, transforming them into a security. A typical example of securitization is a mortgage-backed security (MBS), which is a type of asset-backed security that is secured by a collection of mortgages.



Securitization is achieved by transferring the lending to specifically created companies called ‘Special Purpose Vehicles’ (SPVs). In the case of conventional mortgages, the SPV effectively purchases a bank’s mortgage book for cash, which is raised through the issue of bonds backed by the income stream flowing from the mortgage holder.

Mechanism for Design, Structuring, Distribution and Regulation of Collateralized Mortgage Obligation (CMO) and REIT in Nigeria



Funding and Credit Enhancements and Guarantees for CMO by the Government

- ❖ Review the regulatory framework to provide robust operational guidelines to enhance profitability
- ❖ Mortgage sector needs to engage more with credible local and international agencies to further develop affordable funding structures
- ❖ There is need for the establishment of secondary mortgage market in Nigeria
- ❖ Offer tax incentives for investments in CMO and REITs
- ❖ Leverage multilateral funding options and soft loans to subsidize and back some CMO for social housing schemes



Boosting Investor Confidence and Key Attributes for the Growth of CMO and REIT

CMOs

- ❖ Collateralized Mortgage Obligations (CMOs) are a special type of Mortgage backed securities; the cash flow from assets is restructured through the issue of multiple tranches of bonds
- ❖ CMO provide protection from the prepayment uncertainties caused by changing interest rates
- ❖ CMO receive high ratings as they are government backed mortgages, have low yield return and offers investors a lower minimum cost to buy into the investment
- ❖ Develop CMO insurance products that can be placed locally or abroad and promote the establishment of private mortgage insurance to protect investors

REITs

- ❖ REITs could be used for portfolio diversification
- ❖ REITs are required to return 90% of their income which may be taxable for the investor
- ❖ They provide ease of liquidation due to their access to the stock market through their shares
- ❖ REIT provide dividend investors with high yields, steadily growing payouts, nice diversification, and an attractive income stream for retirement living. They pay dividends no matter how share performs
- ❖ The dividends of REIT are exempt from withholding tax, VAT and CGT on the sale of the securities; they offer tax advantages

The Way forward

1. 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.
2. Federal Mortgage Bank of Nigeria (FMBN) and state government should desist from direct-lending arena. Funds from here should be rather channeled through PMI.
3. FMBN should muster federal government guarantee to back the loans.
4. Cardinal focus should be to develop a strong secondary market that could guarantee mortgage loans and support the loan-origination ability of primary institutions by purchasing loans issued to home-buyers and then turn around to collateralize those loans by issuing Mortgage Backed Securities (Bonds) that could conveniently be sold in the capital market.
5. Primary institutions should directly collateralize some of their loan portfolio by issuing Mortgage Backed Securities (MBS) or Real Estate Investment Trust (REIT) Bonds, and sold to individual/ institutional investors, thereby expanding credit and diluting risk.

Housing Sector outlook



Outlook



- Despite the apparent current economic malaise, we believe Nigeria's strong fundamentals will facilitate projects in the real estate sectors, although downside remains given that the industry rely on imported goods is expected to struggle over 2017 given the lack of dollars in the economy.
- Given the population growth rate set to average 2.7% over the next 10 years, this market is set to increase and offer great possibilities for investors.
- With a population in excess of 180 million, Nigeria offers enormous opportunities for real estate despite structural weak economy
- Nigeria has seven cities with a population of over 2 million people, presenting several possible markets for foreign investors to enter

Biography: Chamberlain S. Peterside, Ph.D.

Chamberlain is the Chairman/CEO at Xcellon Capital Advisors Limited. He comes with a diverse background spanning over 24 years in the global business arena, covering Investment Advisory, Wealth Management and Public Finance. He earned a Ph.D in Economics from Friendship University Moscow in 1992. Prior to founding New Era Capital Corporation, New York in 2004, he spent several years in the Global Private Client Group of Merrill Lynch, NY and HSBC Brokerage USA. He founded Xcellon Capital Advisors in 2008 and subsequently served as the Commissioner of Finance in Rivers State, Nigeria from 2011 - 2015. He rejoined Xcellon Capital to continue to advise public and private clients throughout Africa.