

# Securitization, Guarantees, Crowdfunding, and Other Housing Finance Innovation

A CAPITAL EXPRESS FINANCIAL SERVICES PRESENTATION AT THE 6<sup>TH</sup>  
NIGERIA AFFORDABLE HOUSING FINANCE AND INNOVATION SUMMIT  
AND EXPO (NAHFIS)-NOVEMBER 2023

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# WHO WE ARE AT CEFS

Capital Express Financial Services (CEFS) is the anchor organization that manages our decade-long presence in the other Financial services business segment of Securities, Asset Management, and Trusteeship.

CEFS is driven by highly seasoned professionals whose wealth of experience is a mix of both core Financial Services and Other Financial Services that remain energized towards value delivery and creation for all its stakeholders.

CEFS remains energized to offer excellent service across its tiers of Capital Market operations, with over 3 decades of continuous customer satisfaction that has earned us a premium position in Nigeria's Financial Market evolution.



# OUR CORPORATE PHILOSOPHY

**VISION:** To be a world-class financial Services Provider

**MISSION:** To Provide Wealth Management and Risk protection services, using efficient technology and manpower, thereby creating value for all stakeholders

## **CORE VALUES:**

**C:** Customer dedication,

**C:** Creativity,

**R:** Respect for Individuals,

**I:** Integrity,

**T:** Teamwork



# CAPITAL EXPRESS SECURITIES LIMITED

- Capital Express Securities Limited (CESL) was incorporated in November 1990 to focus exclusively on Investment Banking activities such as, Advisory, Stock Brokering, and Capital Market functions. CESL, is a dealing member of the Nigerian Exchange (NGX) and NASD, Specialist Dealing Member, and Associate Member Broker of the FMDQ Exchange and registered by the Securities & Exchange Commission.

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## **Securities Trading and Brokerage Services**

*Purchase and Sale of Shares, T-Bills and Bonds,  
Securities Proprietary and Online Trading*

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## **Corporate Finance**

*Capital Raising and Structuring  
Working Capital Management*

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## **Financial Advisory**

*Mergers & Acquisitions and Privatizations*



# CAPITAL EXPRESS ASSET MANAGEMENT LTD

- Capital Express Global Asset Management Limited (CEGAM) formerly Kellogs Asset Management Limited was incorporated in 2007 to offer Portfolio & Fund Management Advisory Services
- The Company is duly registered and regulated by the Securities and Exchange Commission (SEC) as a Fund/Portfolio Manager in Nigeria

## FUND MANAGEMENT

- **Mutual Funds: Money Market Fund, Fixed Income Fund, and Balanced Fund**

## PORTFOLIO MANAGEMENT

- **Active or Passive Management**
- **Discretionary or Non-Discretionary Management**

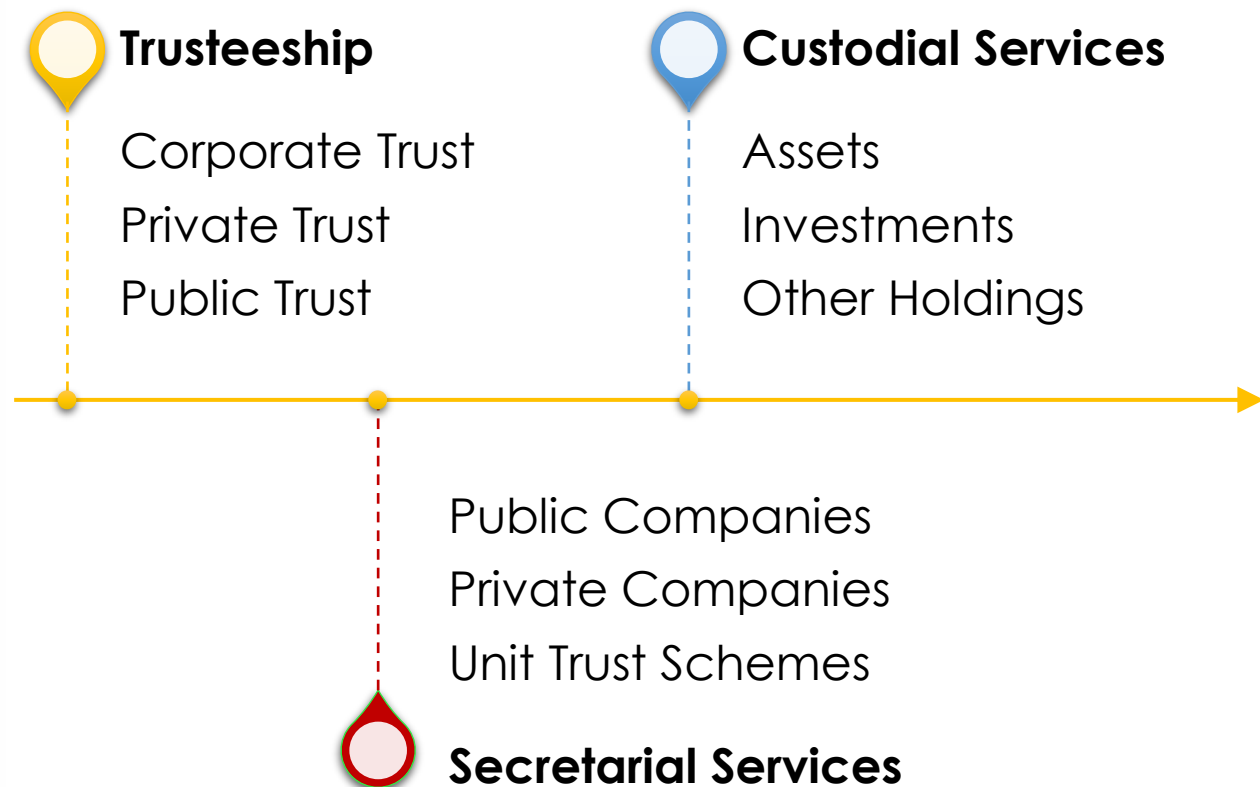
## STRUCTURED BASED FINANCING

- **Asset Backed Financing**



# CAPITAL EXPRESS GLOBAL TRUSTEES LTD

Capital Express Global Trustees Limited (Formerly: Prime Wealth Nominees Limited) was incorporated in March 2008 to perform the Trusteeship function. It is duly registered and regulated by the Securities and Exchange Commission (SEC).





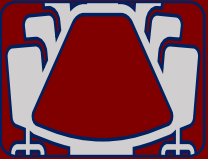
# SECURITIZATION



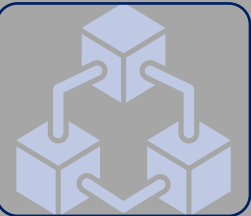
A risk management tool that enables the transfer of risk through the bankruptcy remoteness features



Although the recent financial crisis was triggered by the subprime mortgage crisis but was further propelled by the New Financial Architecture (Like Securitization), which represents the integration of the modern financial market with the era of lax government regulation.



Securitization transactions are structured through either Special Purpose Trust or a Special Purpose Corporation



Securitization cashflows are through pass-through securitization or pay-through securitization. As for pass-through securitization, the underlying asset of the debt instrument is linked to the investors' securities, while as for pay-through they are not, as the cashflow received may have been generated from a different underlying asset, as such it is more riskier than the former

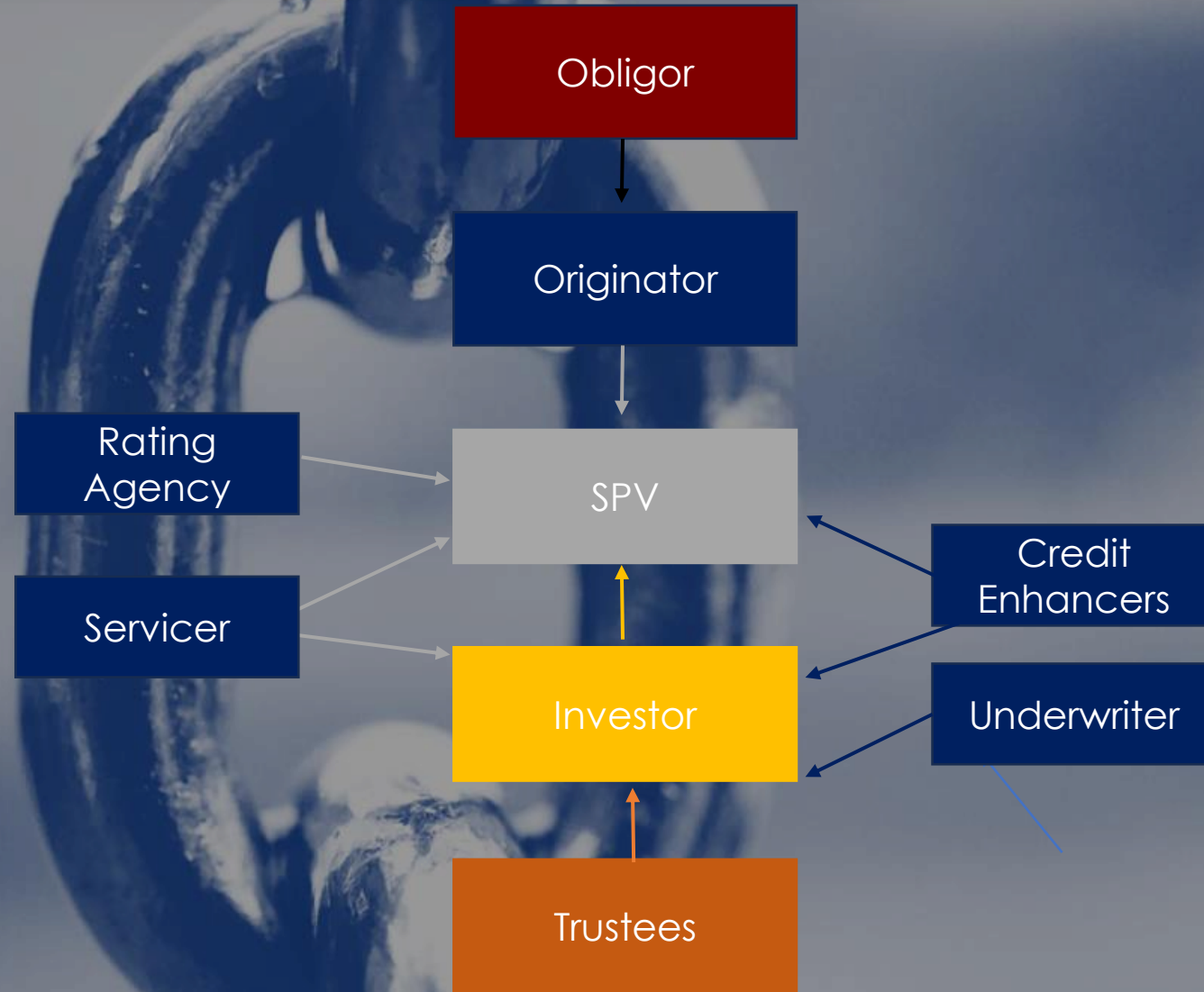


Securitization Underlying assets are either a pool of mortgages regarded as mortgage-backed security (MBS) or a pool of other consumables, called Asset-backed security (ABS) or collateralized debt obligation (CDO).





# SECURITIZATION TRANSACTION VALUE CHAIN



# SECURITIZATION TRANSACTION VALUE CHAIN-CONT'D

**Obligor:** owes the originator payments in the underlying loans/assets, who is responsible for the performance of the issued securities.

**Originator:** This is the Financial Institution that initiates a securitization transaction

**SPV:** a legal entity other than the originator instituted to structure the securities to be sold in the financial market. The transfer of the receivables to the SPV insulates the originator from the creditors in case of bankruptcy.

**Investor:** they are the subscribers to the issued securities

**Trustees:** ensures that the money is transferred from the servicer to the SPV and that investors are paid and monitors compliance with appropriate covenants by other parties to the agreement that focuses on the obligations and performance of all parties associated with the securities issued

**Rating Agency:** provide credit ratings on securities, based on their assessment of their apparent credit risk

**Servicer:** performs several administrative duties on behalf of the SPV that include mailing & billing of statements, collecting payments and supervising delinquencies.

**Credit Enhancers:** this represents a third-party guarantee issued by creditworthy institutions that are often insurance establishments.

**Underwriters:** are Investment Bankers who perform the intermediation function between the issuer and the investor in an offering and are responsible for transaction structuring.

# SECURITIZATION ARCHITECTURE FLAWS

**Excessive  
leverage  
Usage**

The meltdown of the subprime mortgage era was compounded by the unprofessional conduct of lenders who exaggerated incomes in order to increase the value of loans disbursed, in addition to the adjusted monetary policy of increased interest rates that translated to reduced residual income, with a pull through effect of fall in the US property Prices, and at such mortgage default took its toe on the market.

**Pricing  
Misconceptions of  
Innovative Products**

Innovative products are often mispriced due to structured product complexity that limits the tendency of accurate assessment of the inherent risks of the underlying instrument and further impedes appropriate valuation. The bankruptcy remoteness of the Special Purpose Vehicle used in structuring Collateralized Debt Obligations (CDOs) ensured its non-recourse to the originator assets, and investors relied on rating scores that are subsets of Credit Risk Assessment, which was misleading, as MBS became less transparent.

**Weak  
Fundamentals**

Lack of empirical evidence supporting the assertion that financial instruments are correctly priced by market forces that fail to recognize the influence of market abnormalities that would sway irrational rallies without recourse to underlying instrument fundamentals. Therefore, any structured product that fulfills investors' return expectations must be scrutinized for the preservation of capital.

**Neglect of  
Liquidity**

This structured Product is void of liquidity, as the underlying asset's ease of conversion to cash or investor capital immediate recovery is limited, without eroding the face value of the underlying asset.


**Lax Regulation  
and Ease of Credit**

The Fed's decision to avert economic recession spurred the Fed chair to oppose regulation of financial instruments, such as derivatives that permitted easy credit-backed money into the U.S. Economy.



# REAL ESTATE GUARANTEE


## REAL ESTATE GUARANTEE TYPES




**Guarantee:** It is an agreement where a third party agrees to pay back loan in the event of default by a borrower.




**Guarantee:** It facilitates borrowers' access to sources of financing.




**Limited Guaranty:** This form of guaranty offers restricted protection to the Financiers of real estate transactions. This guaranty is structured to offer flexibility to both the lender and the guarantor, wherein the lender could recoup more if the borrower defaults early and protects the guarantor if the borrower defaults occur at the latter end of the debt cycle.




**Burn-Off Guaranty:** This form of guaranty is structured to limited guarantors exposure across the lifecycle of the debt or upon the attainment of specified milestones.



**Several Guaranty:** This form of guaranty is structured among several guarantors that in turn diversify the exposures of both the lender and the guarantors, which implies that the guarantors is only Liable to a fraction amount of the exposure.



**Specific Performance Guaranty:** A specific guarantee is secured against the performance of conditions or attaining certain milestones that provide the required comfort to the beneficiary (often the lender) certifying that the issuer will not renege on its undertakings.



**Carve-Out Guaranty:** This form of guarantee is constituted to protect the lenders from the unprofessional and unethical practices of developers, such as dilution of collateral value, construction downtime, fraud, misapplication of casualty or condemnation proceeds, "waste" of assets, and environmental liabilities

# CROWDFUNDING

Crowdfunding is an investment outlet that enables like-minded investors to pool resources together towards undertaking investment opportunities within the real estate sector and other sectors

Forms of Crowdfunding could be outright ownership of properties, profit sharing emanating from real estate-related investment, and contributing towards real estate developments

Crowdfunding platform ensures that the retail segment of the financial ecosystem is not neglected, which provides an extensive dragnet towards fundraising

Crowdfunding offers promoters access to two main sources of funding which are: Equity and Debt





# CROWDFUNDING

## REASONS FOR CROWDFUNDING TRACTION

Many shareholders split the risk instead of singular risk absorption

Avails investors opportunities to diversify their portfolio

Offering Investors exposure to the real estate market without personal ties

Reduction of Risk exposures from huge capital outlay required

Reduces request for substantial security request and commitment

## POTENTIAL CROWDFUNDING PITFALLS

Limited Regulation

Potential Loss of capital

Illiquidity

Promoters' unprofessionalism



# Real Estate Innovation

Our real estate innovation focus will be inferring to our FATE model (Financial Advisory, Trusteeship, and ESG) approach to real estate transactions that mostly anchor on the role of ESG in propelling sustainability.

## Sustainable innovations:

Increased awareness among stakeholders has enhanced the prioritization of sustainability that has transcended beyond sustainable construction but is inclusive of Intelligence digitalization and the Internet of things that are visible to the real estate Ecosystem.

**Innovative Construction:** is aiding the construction process to be less complex and safer by ensuring precise methodology of project construction, through the deployment of 3D printing, specialized gadgets, and multifunctional paints.

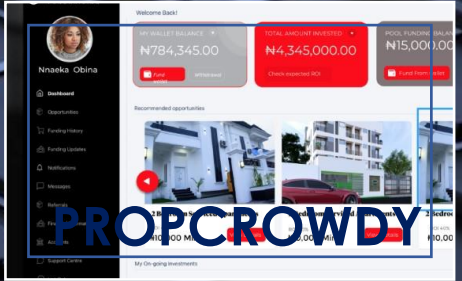
**Digitalized Processes:** the flow of data collection, storage, and analysis has enhanced the efficiency and effectiveness of transaction consummation, such as property management software that automates repetitive tasks.

**Internet of Things:** Is aiding the transformation of real estate into an interconnected ecosystem that offers endless possibilities for more efficient, user-friendly, and sustainable buildings, such as the flexibility of property gadgets that offer easy and centralized control.

**Platforms to Connect:** industry events among key players for showcasing, dialogue about exacerbating issues, and Knowledge sharing

**Way of Funding:** The advent of alternative financing methods has enhanced the accessibility of financing for real estate transactions that encompasses both institutional and retail investors' participation.

# Property tech Innovation In Nigeria





# THANK YOU



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