



NMRC AND THE NIGERIAN MORTGAGE MARKET: An Intermediate Step to a full Secondary Mortgage Market

**2014 CAPITAL MARKET COMMITTEE
(CMC) RETREAT & CONFERENCE**

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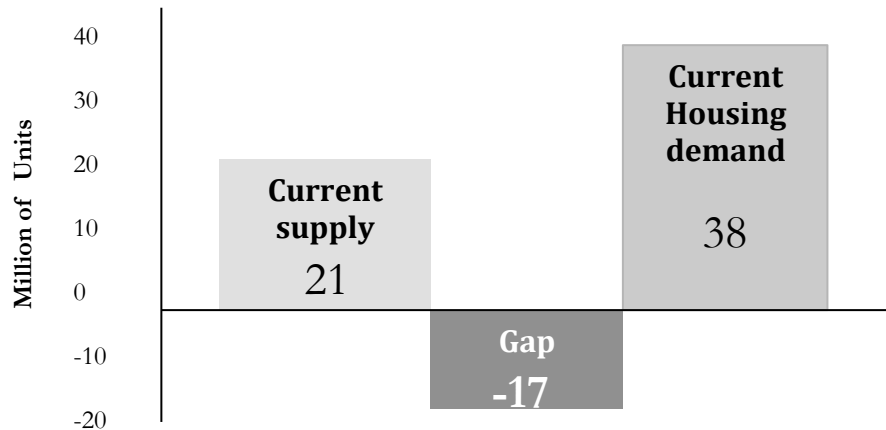


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Nigeria Housing Market



NIGERIA HOUSING DEFICIT - 2013 Housing Demand and Supply Gap

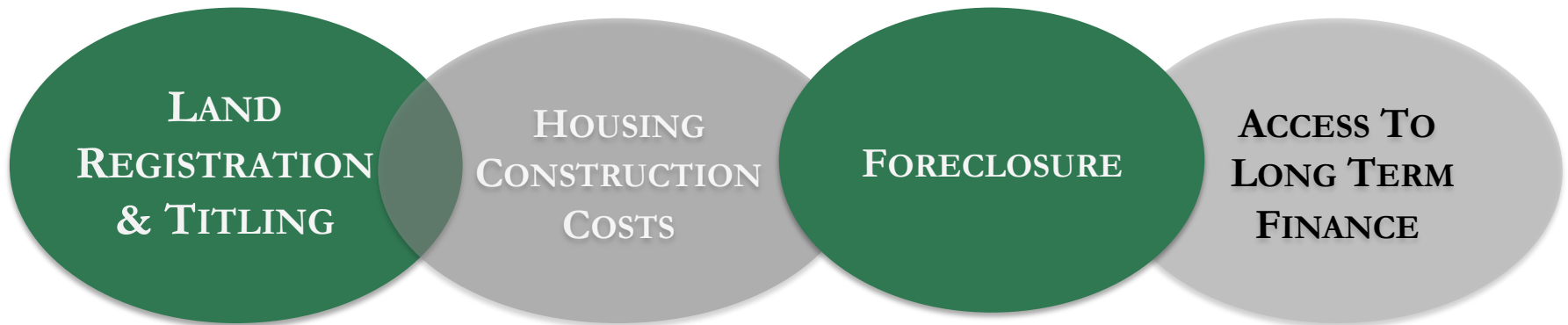


“an estimated 17 million housing units are needed to fill the supply gap.”

“Mortgage loans to GDP ratio for Nigeria is abysmally low compared to other countries”

- According to the World Bank, a study on the housing situation in Nigeria puts the country's housing deficit at 17 million houses, while about 700,000 units are needed every year to meet rapidly expanding demand.
- Mortgage loans as a percentage of GDP in Nigeria is only 0.35 percent as at end of 2011. Comparable mortgage loans to GDP ratio elsewhere include Botswana (2 percent), China (13 percent), India (6 percent), South Africa (31 percent).
- Some key factors have stifled robust development of the residential housing market.

Nigeria Housing Market – Key Issues



- Prolonged registration process and high cost of registration
- High cost of locally produced building materials
- Protracted foreclosure process
- High interest rate and funding mismatch

Establishment of NMRC



Overview

Formation and Ownership

- A private company, sponsored by the Federal Ministry of Finance, CBN, FMLUD, the World Bank, financial institutions, and licensed by CBN.
- To maintain its developmental focus and operate on an economic sustainable basis, it is majority private sector owned and managed, with limited public sector involvement (mainly supportive for the early foundational stage).

Aims

- To encourage and promote home ownership by providing longer tenors and reduced cost funding to mortgage bankers, for on-lending at affordable rates to borrowers.
- Thereby increasing availability and affordability of mortgage loans to residential mortgagors.

Strategy and Operations

- NMRC acts as a simple intermediary between mortgage lenders and the capital markets. By using its size and credit worthiness, NMRC will be able to raise funds at an affordable rate.
- This is attributable to the strong shareholders, strong capital base, excellent quality of assets in its books and good corporate governance (regulated by CBN and SEC).
- Lenders can only refinance through NMRC if they are members/shareholders of the latter.

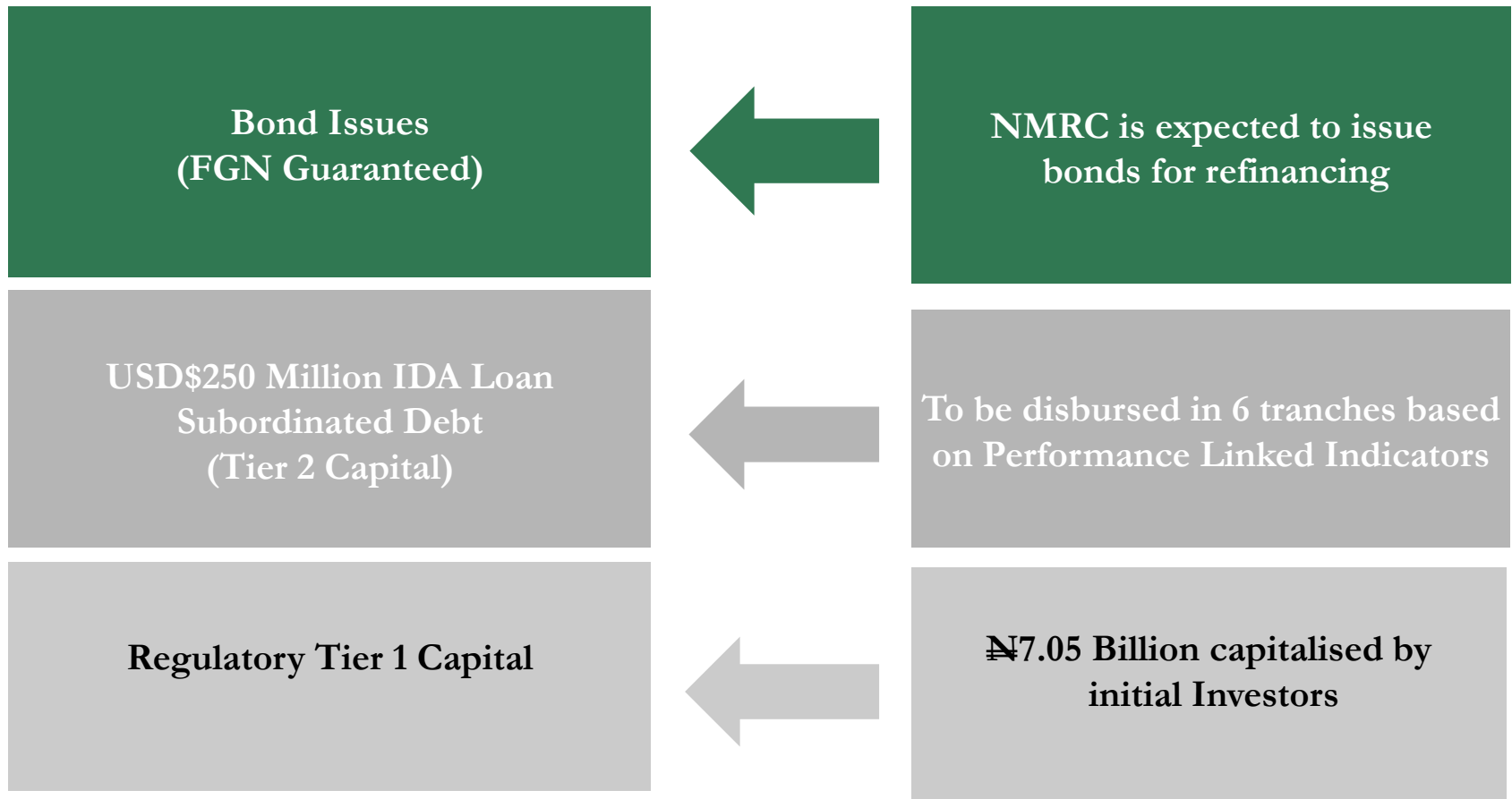
Establishment of NMRC



Business Objectives

Increase Mortgage Lending		To encourage financial institutions to increase their mortgage lending by providing them with long term funding;
Increase Maturity Structure		To increase the maturity structure of mortgage loans and assist in providing affordable mortgage rates;
Increase Industry Efficiency		To increase the efficiency of mortgage lending by taking a lead role in proposing changes to the enabling environment for mortgage lending as well as by standardising mortgage lending practices of financial institutions; and
Introduce New Asset Class for Investors		To introduce a new class of high quality long-term assets to the pension funds and other investors.

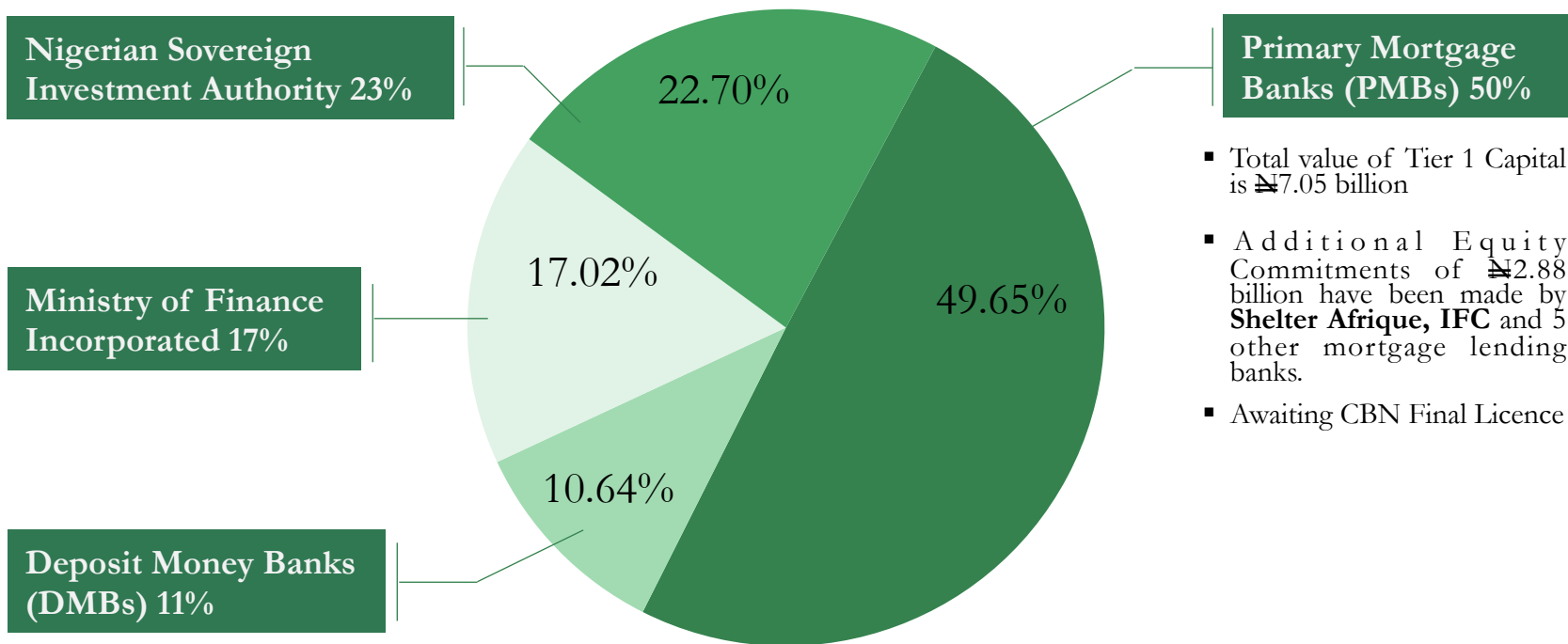
Capital Structure



Capital Structure (contd.)



TIER 1 CAPITAL – Tranche 1 Equity Capital



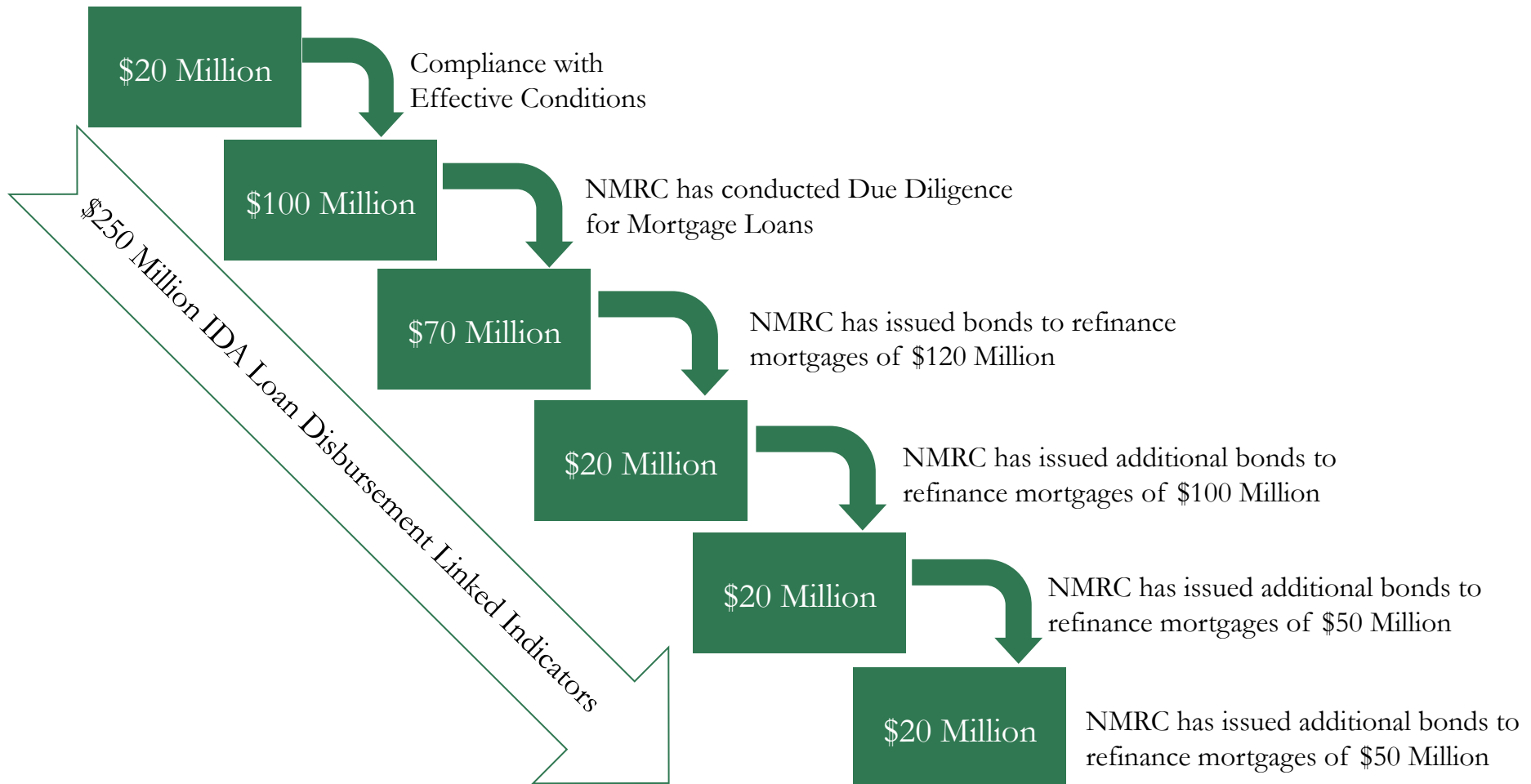
TIER 2 CAPITAL – World Bank IDA Loan Subordinated Debt

- US\$250 Million IDA Loan to be disbursed to NMRC in 6 tranches based on performance linked indicators such as preselected mortgages, value of mortgage portfolio originated, and bonds issued.
- Financing Agreements for the IDA Loan have been executed with the Central Bank of Nigeria.

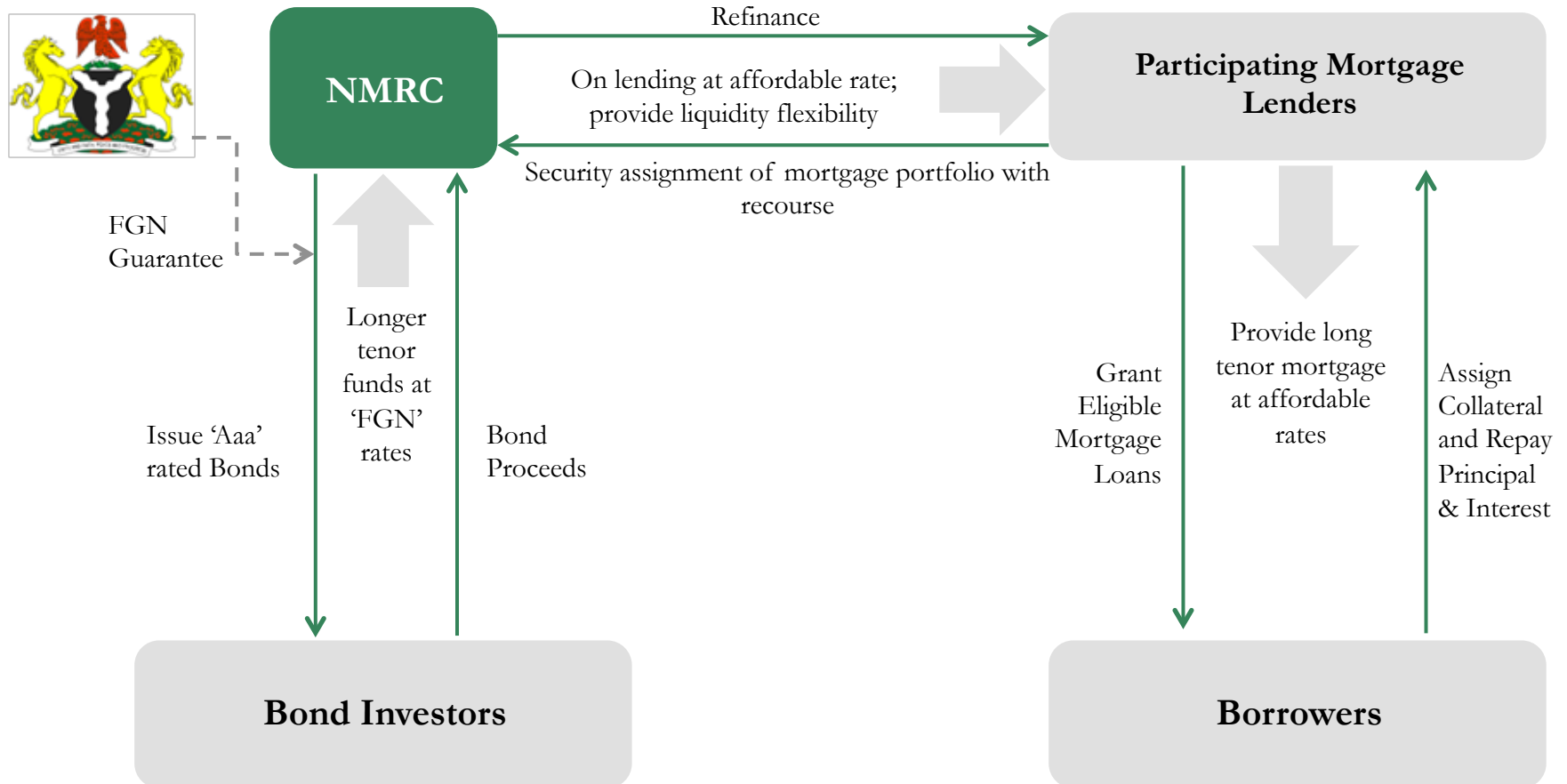
Capital Structure (contd.)



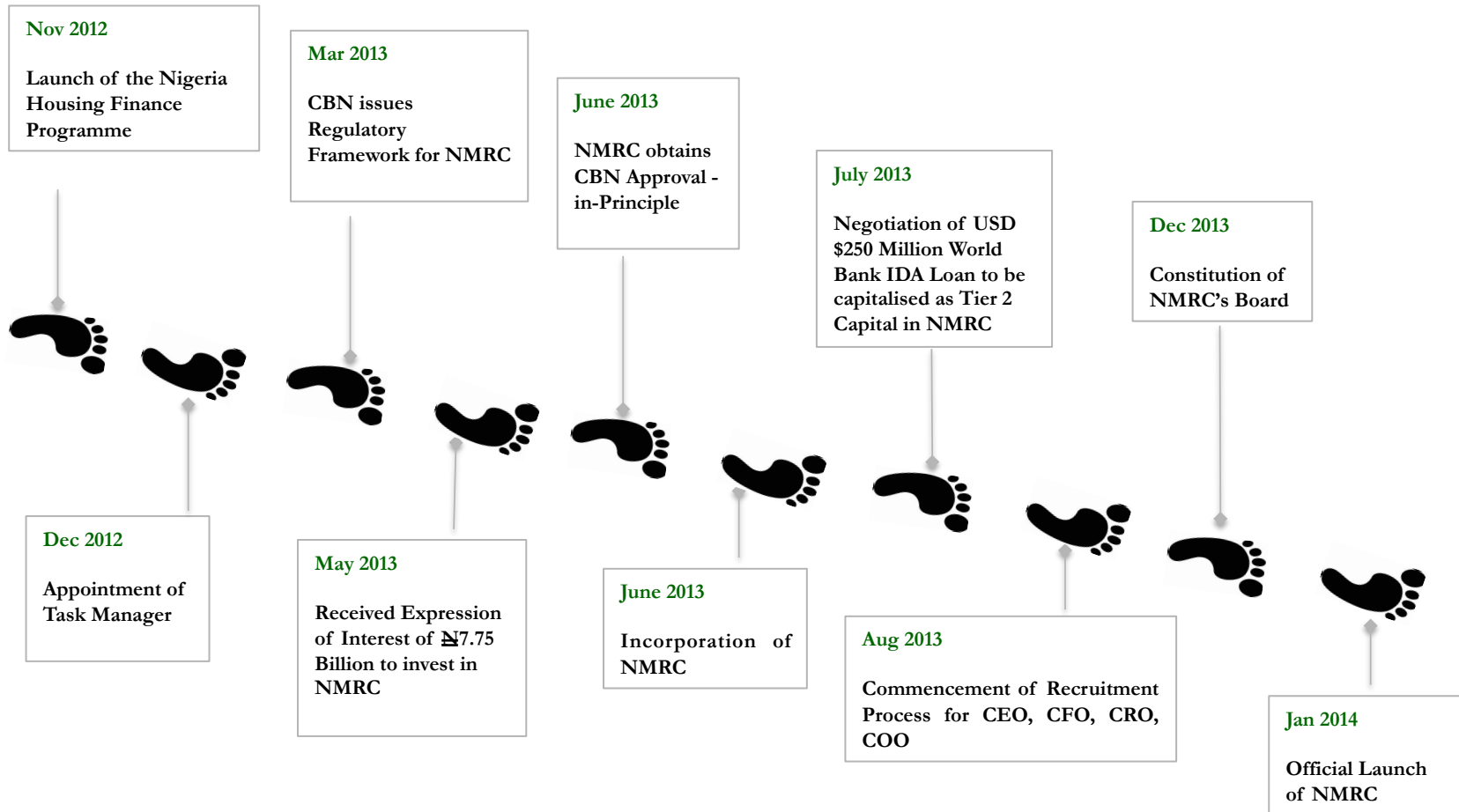
TIER 2 CAPITAL – Performance Linked Disbursement Milestones



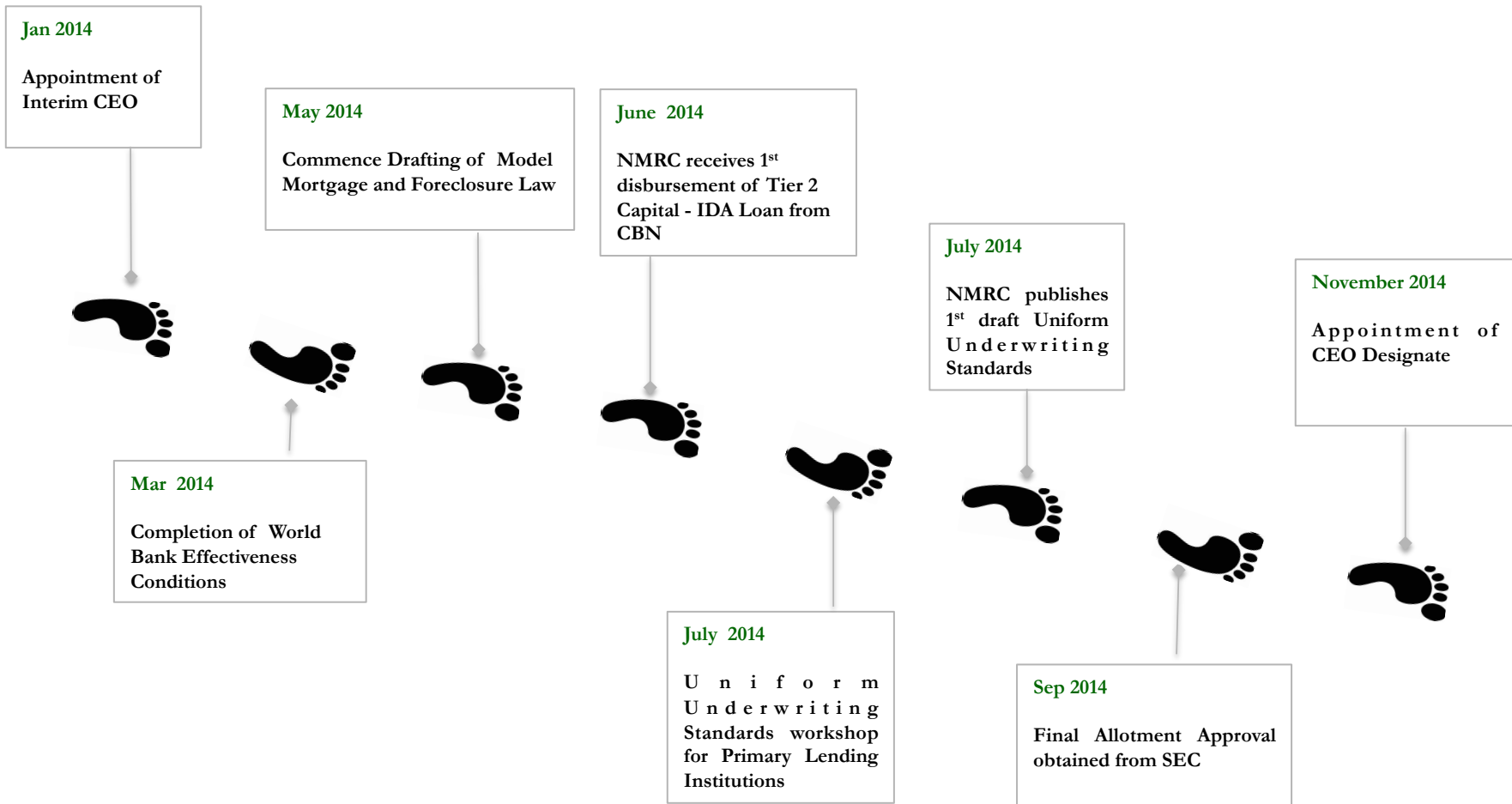
Mode of Operation



NMRC's Footsteps in Time



NMRC's Footsteps in Time (contd.)



Setting an Efficient Secondary Mortgage Market



NMRC has devoted considerable time in its first year to technical activities that are critical to managing the risks inherent in the primary mortgage market for the long-term benefit of market development and sustainability of the secondary mortgage market:



Standardisation

- NMRC's Uniform Underwriting Standards for eligible mortgage loans has now been finalised
- This process will effectively convert mortgage loans into commodities and lower costs of due diligence.
- It will enable investors, rating agencies and guarantors to quantify credit risk.

Legislative Reforms

- The Model Mortgage and Foreclosure Law is in its final form for engagement with the Pilot States
- Successful passage will fast track the process for creating legal mortgages, ensure timely resolution of disputes and create an efficient foreclosure process.

Performance Data

- NMRC is initiating an IT Framework that will link NMRC's system directly to the participating mortgage lending banks' mortgage information system
- Availability of credible historical performance data on mortgage loans (e.g., default and prepayment) will enhance risk assessment and pricing of NMRC's credit risk

Proposed Land Administrative Reforms...

State Government Commitments

- Delegation of Governors Consent with a maximum time to obtain consent
- Replacement of Consent Fees with flat fees where applicable rather than fees as a % of property value
- Reduce or merge the number of steps to register a property
- Digitise Land Registries

- Creation of specialized Court Division to deal with mortgage foreclosures
- Adoption of model mortgage and foreclosure law
- Where needed training for specialist circuit of judges able to deal with mortgage enforcement

- Transparent provision of land under a PPP arrangement to developers for the purpose of affordable housing development by States
- Establishment of a clear and transparent pricing methodology for the land and allocation process
- Provision of basic services on the land
- Fast track approval process for housing construction permits
- Where applicable some waivers on fees and State taxes associated with housing construction

Financial/Technical Support

£27m UK DFID Funded Business Environment Reform Technical Assistance Programme



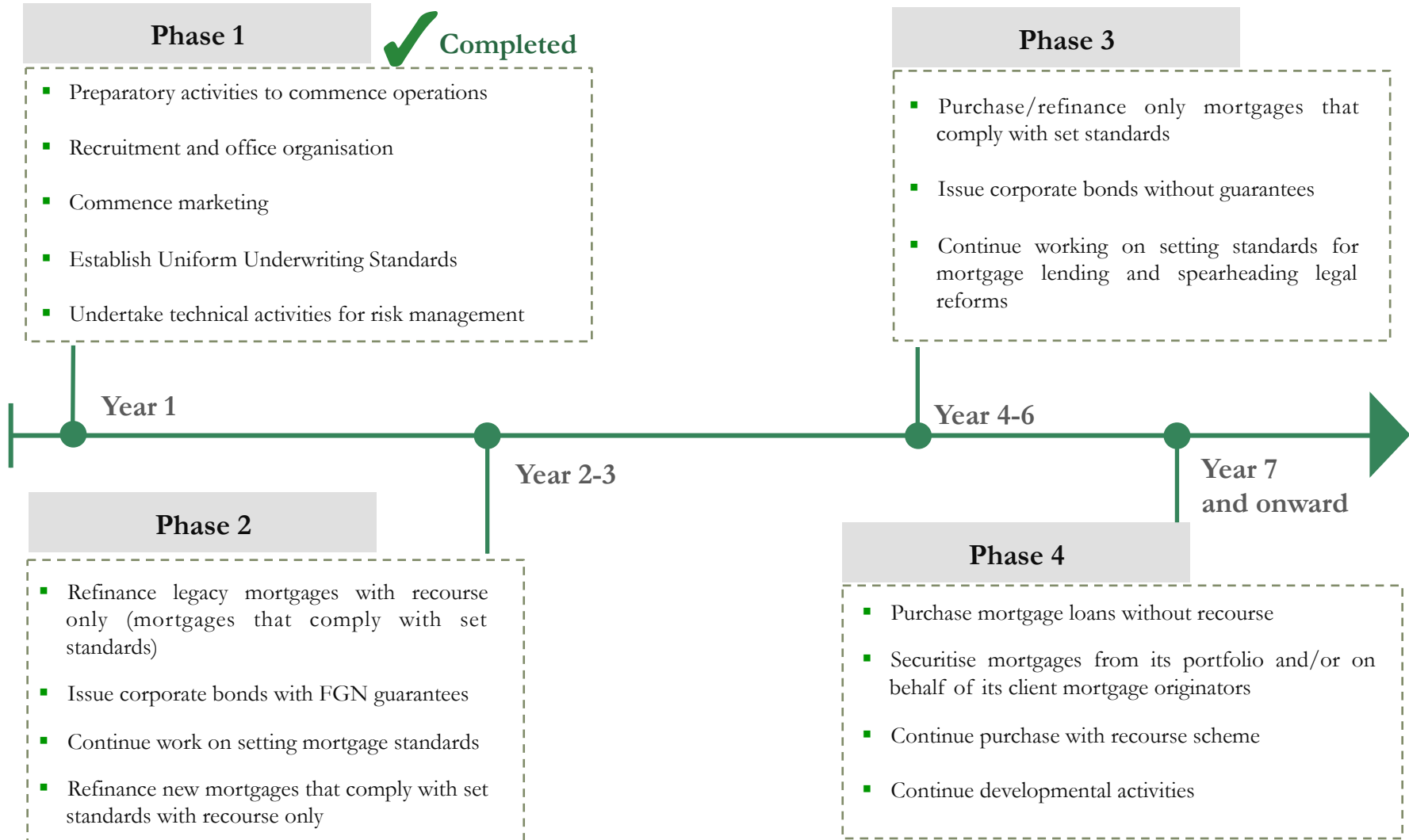
Expected Impact

- Max of 5 steps to register
- Max time of 30 days
- Max cost of 5% of property value
- Enabling environment for NMRC to Refinance Mortgages

- Max of 6 months to foreclose on a property
- Max cost of 10% of property value in total costs
- Enabling environment for NMRC to Refinance Mortgages

- Large scale production of housing at affordable prices
- Enabling environment for NMRC to Refinance Mortgages

NMRC Business Implementation Phases



Developmental Impact of NMRC



- Significant expansion of mortgage origination activities
- Improved affordability of mortgage loans driven by reduced interest rates and tenor elongation
- Improved risk management processes on the back of the standardisation requirements
- Substantial improvement in the liquidity of long-term mortgage assets
- More stringent consumer protection procedures as a result of the standardisation requirements

Developmental Impact of NMRC (contd.)



- Provide a new kind of investment class for investors which are of high quality and long-term in duration
- Increased number of professional and semi-professional jobs in the financial sector
- Large and positive development in the real sector on the back of increased demand for new, high quality and affordable housing

END OF PRESENTATION