

## **OVERVIEW OF THE NIGERIA MORTGAGE REFINANCE COMPANY (NMRC)**

NMRC was established to bridge the funding cost of residential mortgages and promote the availability as well as the affordability of good housing to Nigerians by providing increased liquidity in the mortgage market through the mortgage and commercial banks.

The company is driven by substantial private sector participation consisting of commercial banks, primary mortgage banks, insurance companies, private equity investors and international financial institutions through the Ministry of Finance with the public purpose of developing primary and secondary mortgage markets, raising long-term funds from both domestic capital market and foreign markets to provide accessible and affordable housing to Nigerians in Nigeria.

The NMRC is a key component of the Nigeria Housing Finance Programme which was initiated by the Federal Ministry of Finance (FMOF), the Central Bank of Nigeria (CBN), Federal Ministry of Lands & Urban Development & Housing and the World Bank/IFC, with the principal objective of addressing the long-term funding constraints hindering the growth of the primary mortgage market, and reducing the costs of residential mortgages and available housing to working Nigerians.

NMRC is a public private partnership arrangement between the Federal Government of Nigeria and the private sector.

NMRC is a private sector driven company with the public purpose of bridging the funding cost of residential mortgages and promoting the availability and affordability of good housing to working Nigerians by providing mortgage lending banks with increased access to liquidity and longer term funds in the mortgage market.

NMRC's vision is to encourage and promote home ownership in Nigeria. NMRC was incorporated on 24<sup>th</sup> of June, 2013 as Nigeria Mortgage Refinance Company Plc. It obtained an Approval-in-principle from the CBN on 20<sup>th</sup> June, 2013.

### **Key Business Strategies**

The business objectives of the NMRC will include the following:

- To encourage financial institutions to increase their mortgage lending by providing them with long term funding;
- To increase the maturity structure of mortgage loans and assist to reduce mortgage lending rates;

- 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 standardizing mortgage lending practices of financial institutions; and
- To introduce a new class of high quality long-term assets to the pension funds and other investors

It is intended that these objectives will be executed in phases in order to enable the NMRC operate as efficiently as possible in the Nigerian environment and lay the foundations for supporting other key sectors of the economy.

## FREQUENTLY ASKED QUESTIONS

### 1. What is NMRC?

The Nigeria Mortgage Refinance Company (NMRC) is a Public Private Partnership arrangement between the Federal Government of Nigeria and the private sector.

It is being implemented as a component of the Nigeria Housing Finance Programme initiated by the Federal Ministry of Finance, the Central Bank of Nigeria (CBN), Federal Ministry of Lands, Housing & Urban Development (FMLHUD) and the World Bank/IFC.

NMRC is a vehicle set up to bridge the funding cost of residential mortgages and promote the availability and affordability of good housing to working Nigerians by providing mortgage lending banks with increased access to liquidity and longer terms funds in the mortgage market.

### 2. What is the Nigeria Housing Finance Programme?

The Nigeria Housing Programme seeks to address the key barrier to developing accessible and affordable housing in Nigeria. It will be implemented with parallel funded projects in land registration and construction sectors by the DFID and GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH).

The Programme has various components, and will be most effective if a coordinated approach to all parts of the value chain is implemented. The main areas are: a) land and legal framework, b) access to affordable housing finance, and c) development and construction of affordable houses, housing microfinance and development of the secondary mortgage market.

NMRC is being established with the primary aim of resolving access to affordable housing finance, and importantly, as a focal point for creating an enabling environment for housing finance by playing a strong developmental role of land and legal framework and housing development and construction.

### 3. What is the Housing Microfinance Scheme and Guarantee Programme and how will it benefit the lower income households?

The Housing Finance Program will introduce innovative new products such as housing micro finance for lower income households. Housing microfinance will be made available for incremental building and home improvements through Micro Finance Institutions. For example, if someone already has land and a partially built home or has enough savings to build a basic home, housing microfinance can be accessed to start that home.

The program will also develop a guarantee program, which is intended to increase the eligibility of low income earners to meet their equity contributions for a mortgage loan. If a low-income household applies for a loan that requires a down payment of 30% of the loan, the intention is that this product could cover up to 50% of the value of the down payment.

#### 4. What is the role of NMRC?

NMRC will provide mortgage-lending institutions which access to long-term finance at an affordable interest rate, thereby enabling mortgages to be issued by these institutions to Nigerians, at longer tenors and affordable rates. The provision of mortgage loans at longer tenors will provide the average working Nigerian citizens an opportunity to buy a home and conveniently pay for it.

In simple words, NMRC is government inspired but a private sector led effort to provide affordable housing for Nigerians through loans accessed from mortgage and commercial banks. NMRC will contribute to a better alignment of the Housing Finance Programme.

#### 5. Why is NMRC needed for Nigeria?

A core strategic objective for the Nigerian government is to achieve broad based and inclusive growth by unlocking markets that have the potential to generate jobs.

The increasing gap in residential homes in Nigeria is estimated to be in a deficit of about 17 million housing units as at 2013. This presents a huge opportunity for private investment and job creation.

It is estimated – following labor impact assessments in countries such as Columbia, Malaysia and South Africa – that at least 5.2 direct jobs can be generated with every new home and 2.48 indirect jobs associated in housing related expenditure.

#### 6. How will NMRC function?

This is a company that will sit as a financial intermediary between the Nigerian capital market and financial institutions that provide mortgage loans to average working Nigerian citizens.

NMRC will access the capital market by issuing long-term bonds, and will utilize the proceeds of the bonds issued to provide liquidity to mortgage lending institutions by providing refinancing facilities secured by the mortgage pool created according to an agreed underwriting standard.

## 7. How will NMRC contribute to affordable housing?

The successful implementation of this project will significantly increase the ability of the working Nigerian to buy a home by supporting the current housing demand with access to affordable finance through mortgage lending banks. Developers will now need to meet this cash demand for housing by building homes of real value and not of speculative value.

The World Bank together with Federal and State governments as well as other partners will continue to work on improving the enabling environment for private developers to operate. Major steps have been taken first to reposition the Federal Housing Authority. With the introduction of NMRC, State governments are being encouraged to reduce the cost of housing delivery, these include making lands easily available, timely provision of property titling, providing infrastructure, and reduction on transaction costs.

## 8. What is the US\$300 Million World Bank Loan being sourced for?

The World Bank approved a concessional US\$300 Million 40 year International Development Association (IDA) loan at 0.75%, which is obtained to facilitate the execution of the Housing Finance Programme. US\$250 Million of the IDA loan will be disbursed in instalments to NMRC as Tier 2 Capital based on key performance indicators – it will be retained on NMRCs balance sheet to provide credit support for NMRC's bond issuances.

The balance of US\$50 Million will be allocated to other components of the Housing Finance Programme as follows: US\$25 Million for the establishment of a Mortgage Guarantee Facility for lower income borrowers and US\$25 Million to support the development and piloting of Housing Microfinance Products.

## 9. How will NMRC provide liquidity in the financial market?

One of the roles of NMRC is to provide liquidity to financial institutions, allowing them to refinance illiquid mortgage assets. This allows a liquidity facility such as NMRC to make direct provision of long term funding into the mortgage market.

In addition, given that the US\$250 Million IDA loan is being used as Tier 2 capital, it allows NMRC to raise its own funds through the issuance of long term bonds to Nigerian institutional investors.

## 10. How is NMRC different from any already existing institution?

This is the first time a co-owned institution such as NMRC is operating with a Public Private Governance structure. All other institutions have either a fully private and public

function. The project represents the first effective collaboration in the financial sector between the public sector – the States, the Ministries of Land, Justice, and Finance, the regulators, CBN, SEC, and the private sector – financial institutions, bilateral and multilateral institutions in addressing prevailing imperfections that limit access to finance, will all parties making meaningful contributions to the NMRC.

**11. Why not have the NMRC function within any of the existing financial institutions?**

The NMRC provides long-term liquidity to financial institutions extending mortgages in Nigeria. The members and owners of the NMRC have a common interest that the facility maintains its liquidity and can fulfill its functions.

It provides the capital market with a transparent and effective way, with little risk of investing in the mortgage market. The public institutions are funded by mandatory contributions and therefore should and will remain fully responsible to their mandatory contributors.

**12. What is the difference between NMRC and Federal Mortgage Bank of Nigeria (FMBN)?**

NMRC and FMBN are working on different aspects of providing affordable housing for Nigerians.

Primarily, FMBN is a public sector institution focused on the role of providing mass housing and mobilization of housing funds for the neediest in society. Loans are directly accessed by Nigerian citizens through the National Housing Fund in accordance with the provisions of the NHF Act. The NHF fund is also to service the non-salaried informal populace.

While NMRC as a secondary mortgage refinancing institution will inject liquidity from the capital market to support mortgage loans accessed through respective financial institutions. These institutions include mortgage and commercial banks. NMRC does not provide mortgage loans directly to individuals. It refinances primary mortgage lenders.

**13. Can NMRC resolve Nigeria's housing deficit?**

With the full operation of NMRC, a substantial building block will be put in place for mortgage finance institutions to meet Nigeria's current housing deficit, in concert with the responsible behavior of other agencies/tiers of Government and the private sector.

The land registries, land courts, representing one such agencies of government, have to provide quick and easy access to certificates of occupancy and fair justice. Macro policy and fiscal discipline must be maintained to achieve acceptable inflation rates, and enable refinancing cost to fall to single digit. State governments need to provide an

enabling environment by digitizing land registries and simplifying the process of access to and transfer of land title.

This is achievable – but it is not guaranteed without the full buy-in of all key players. A Malaysian success story is ‘Cagamas’ which is currently supporting the entire Malaysian housing market.

14. Who are the target beneficiaries?

This initiative is for the benefit of all Nigerians in the long term. Beginning from the first phase of operations, average Nigerians with sustainable and verifiable level of income can access mortgage loans easier and faster from participating mortgage lenders. These institutions will be better equipped to provide long term loans having refinanced from NMRC. It will enable developers to build homes faster and allow these homes to be purchased at an affordable cost, and hence save more household disposable income for other investments.

15. Will NMRC deal with individual borrowers?

No. NMRC is a wholesale second-tier financial institution which refinances portfolios of mortgage & commercial banks rather than originating individual mortgages and will cater for financial institutions rather than individual borrowers.

16. Will the interest rates be affordable?

Yes. The introduction of NMRC will help bring down the cost of mortgage loan by improving market efficiency, lowering cost of funds and allowing for longer repayment tenor period by financial institutions. NMRC as an intervention medium will encourage access to mortgage loans from financial institutions at affordable rates.

17. How will the low income households benefit from NMRC?

Lower income households will benefit from direct jobs created by the construction of new housing units and services required to build a home and deliver it to the final customer. We expect to see an estimated 490,000 additional sustainable jobs over the next coming years.

The wages earned by workers and profits earned by businesses during the construction period are spent on other local goods and services. This generates additional income for local people, which is spent on still more local goods and services, and so on. This continuing recycling of income back into the community is a multiplier effect of the successful implementation of the Project. Lower income households can also benefit through the housing microfinance and the mortgage guarantee scheme components.

18. Which states in Nigeria are involved?

Fourteen states of the country have expressed support towards implementation of the housing finance programme. The pilot states are Abia, Anambra, Bauchi, Bayelsa, Delta, Edo, Enugu, Ekiti, Gombe, Kaduna, Kano, Kwara, Ogun, Ondo and FCT – Abuja.

19. How will State Governments benefit from NMRC?

By creating an enabling environment for mortgage finance, State Governments will be able to attract NMRC to refinance mortgage loans created in these states. This will in turn improve the economy of these states by increasing employment/labour and housing production by stimulating housing construction and manufacturing of building materials in such states.

More importantly such states should experience a significant increase in Internally Generated Revenues (IGRs) through withholding tax earned from increased transactional activities, personal income tax earned from increased residency in such states, and fee income earned from increased volumes of mortgage transactions at the land registries due to efficiencies created by digitization and reduced mortgage transaction costs.

20. How can the opportunity created by the NMRC and Housing Finance Programme be harnessed?

The opportunity presented by the housing market can be exploited if all Government agencies (State and Federal) and Private Sector (Financial Institutions and Construction Companies, etc.) act responsibly. What this means, for is that:

- all households wishing to either, develop their existing home, or acquire a home of their own, must know that they have easy and fair access to a certificate of occupancy without any doubt, this must be as natural as the right to a passport. Land registries in the States must provide access to these rights at a low cost and within a few months rather within a few years, as is often the case.
- Mortgage Institutions have to provide transparent product offerings, with standardized documentation, so that consumers can make self-assessments and develop realistic savings plans towards financing their homes.
- Construction companies, artisans, suppliers of building materials, have to start building homes of real value and not of speculative value. This means that the quality and cost of homes should be easy to assess without large costs to the borrower.

- In the rare cases of default, the financial and mortgage institutions must be able to repossess, fairly and quickly. For this to be possible, the legal justice system for mortgages must be developed to work professionally.

## 21. When do activities of NMRC commence?

NMRC has been officially launched by the President, Federal Republic of Nigeria – Dr. Goodluck Ebele Jonathan, GCFR on Thursday, 16<sup>th</sup> January 2014. By second quarter, NMRC will be set to facilitate and guarantee mortgage liquidity access to qualified financial institutions. These include mortgage and commercial banks. NMRC is strongly identified as a company with national coverage. NMRC already has an initial roll-out support from 14 pilot states in Nigeria and the federal capital territory. The remaining states will be incorporated in subsequent phases of the proposed scheme.

## **ABOUT THE NIGERIA MORTGAGE REFINANCE COMPANY (NMRC)**

The Nigeria Mortgage Refinance Company Plc (NMRC) incorporated on the 24<sup>th</sup> of June, 2013 is a public limited liability company registered with the Securities & Exchange Commission (SEC) and regulated by the Central Bank of Nigeria (CBN) as a non-deposit taking financial institution with core activity of refinancing mortgages.

The initiative of NMRC is a strategic response to the moribund challenges of housing in Nigeria, this led the Federal Ministry of Finance (FMOF) through the Central Bank of Nigeria and other development partners (WB, IFC) to initiate a Housing Finance Programme that will consist of a public-private sector managed mortgage liquidity facility run by NMRC.

NMRC is set up to bridge the funding cost of residential mortgages and promote the availability as well as the affordability of good housing to Nigerians by providing increased liquidity in the mortgage market through the mortgage and commercial banks.

The company is driven by substantial private sector participation consisting of commercial banks, primary mortgage banks, insurance companies, private equity investors and international financial institutions through the Ministry of Finance with the public purpose of developing primary and secondary mortgage markets, raising long-term funds from both domestic capital market and foreign markets to provide accessible and affordable housing to Nigerians in Nigeria.

NMRC's mission is therefore to provide loans to qualified financial institutions by issuing bonds in the capital market. The successful implementation of this programme on conservative estimate sets a growth process in motion that will deliver over 75,000 homes per annum, generate and sustain at least 300,000 direct and 488,000 indirect jobs at the initial phase of the programme.

Some pilot States in Nigeria where the governors have already committed to supporting the NMRC initiative by creating an enabling environment for mortgage orientation to be refinanced by the company include Abia, Anambra, Bauchi, Bayelsa, Delta, Edo, Ekiti, Enugu, Gombe, Kaduna, Kano, Kwara, Lagos, Nasarawa, Ogun, Ondo and the FCT.

One of the most critical non-transactional tasks NMRC will take on is the standardization of the mortgage industry in Nigeria. NMRC as part of its objective will govern the servicing of mortgage loans by the mortgage originators and have the right to audit records of all mortgage loans refinanced by NMRC to ensure high quality mortgages that meet the uniform underwriting guidelines.

## **NMRC Nuggets**

- Nigeria Mortgage Refinance Company is established to encourage financial institutions to increase their mortgage lending by providing long term funding.
- NMRC will increase the maturity structure of mortgage loans & reduce mortgage rates.
- The efficiency of mortgage lending will increase as the company takes a lead role in proposing formidable changes to enable a positive environment for mortgage lending.
- NMRC has an oversight function to standardize mortgage lending practices of financial institutions.
- The NMRC is a wholesale financial institution which refinances portfolios of mortgage & commercial banks rather than originating individual mortgages and will cater for financial institutions rather than individual borrowers.
- The Housing Finance Programme is firmly supported by the Ministry of Finance with assistance of the Central Bank of Nigeria, World Bank and other development partners (DFiD, GeMS3).