



NIGERIA AFFORDABLE HOUSING ROUNDTABLE

NIGERIA HOUSING FINANCE – PERSPECTIVES ON THE ROLE OF SUBSIDY/MORTGAGE GUARANTEE ON HOUSING AFFORDABILITY

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VARIETY OF DEFINITIONS OF HOUSING SUBSIDY

Definitions

The US Congress describes a housing subsidy as an incentive provided by Government to enable and persuade a certain class of producers or consumers to do something they would not otherwise do, by lowering the opportunity cost or otherwise increasing the potential benefit of doing so.

(US Congress 1969)

Wikipedia describes a housing subsidy as follows: Subsidized housing is government sponsored economic assistance aimed towards alleviating housing costs and expenses for impoverished people with low to moderate incomes.

(https://en.wikipedia.org/wiki/Subsidized_housing)

The Financial Dictionary describes subsidized housing simply as “Housing for people whose income is a certain percentage below the median income for an area”

(<https://financial-dictionary.thefreedictionary.com/Housing+subsidies>)



TYPES OF HOUSING SUBSIDY

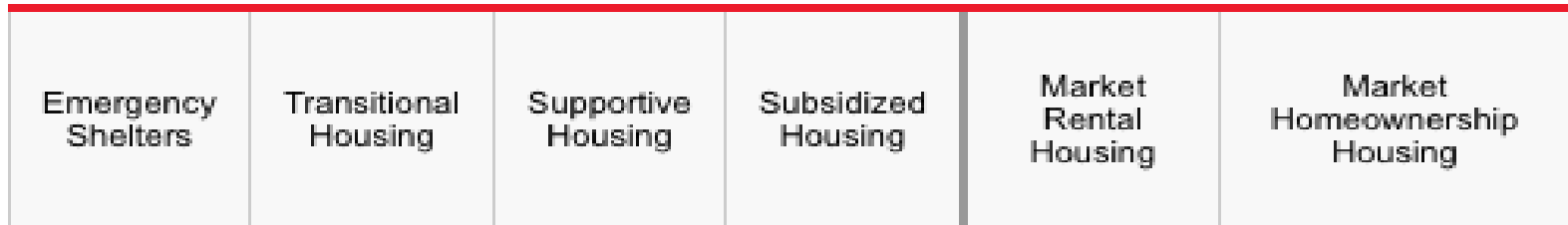
A government can decide to use one or more of the following programs in subsidizing its housing system:

- direct housing subsidies
- non-governmental organization (NGO) housing
- Public low-cost housing schemes
- rent supplement programs of different types
- some forms of co-operative projects
- private sector housing interventions

Is Subsidizing a Good Housing Strategy ?

- Most "market economies" view subsidization as ONLY a part of a strategy to improve outcomes within a housing continuum:

Housing Continuum



- First there should be efforts by government and stakeholders to make the market more efficient – so that as many households as possible can find a housing solution (ownership or rental) without subsidies
 - This is what drives the NHFP : housing finance is at the core of efforts to make the market more efficient
- Second – there should be efforts to help people who cannot find solutions on their own without subsidies



VEHICLES FOR PROVIDING HOUSING SUBSIDY

Subsidies to Retail Lending Institutions

- State Housing Banks
- Mortgage Insurance or Guarantee potentially

NB: Mortgage Guarantee would be subsidized if and only if, the risk taken by the guarantee company is not fully funded and if the Government backstops the risk – not the case in Nigeria

Subsidies to Funding Systems

- Special Housing Funds
- Capital Market Funding potentially

Subsidies to Households

- Upfront Cash Grants
- Savings Linked Subsidies
- Interest Rate Subsidies
- Tax Based Subsidies

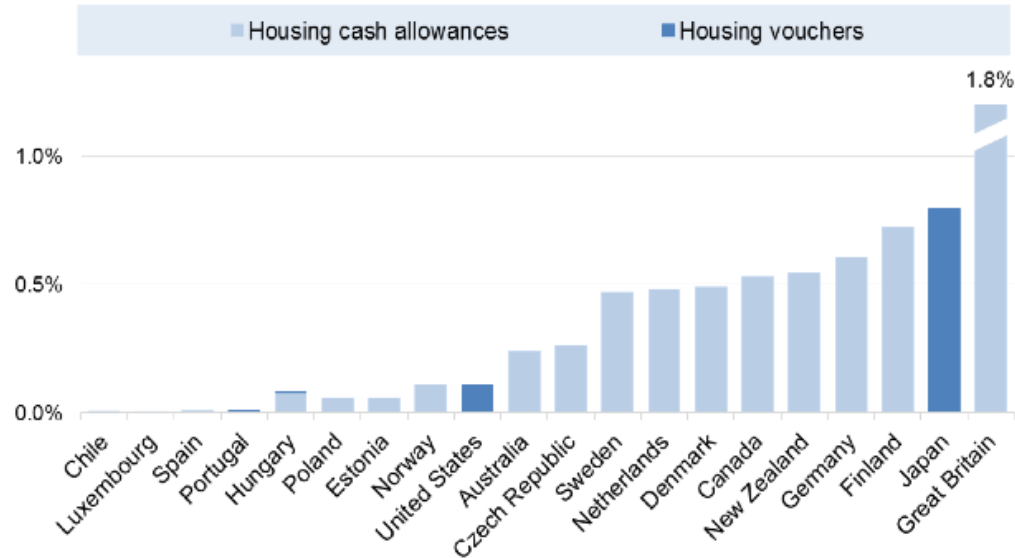


GOVERNMENT GOALS IN HOUSING SUBSIDY



Housing Subsidies Are Costly

Central government spending as % of GDP, 2012-2013



Notes: information on the amount of spending on housing allowances is missing for Austria, Israel and Ireland. Information on the amount of spending in Switzerland has not been included because restricted to the city of Basel.

Source: OECD Questionnaire on Affordable and Social Housing 2014; see Box 3 for QuASH details and coverage.

Source: OECD ; « Policies to promote access to good-quality affordable housing in OECD countries » ; OECD Social, Employment and Migration Working Papers No. 176, 2016 - Figure 14, page 45

Thus market measures that improve access to housing without subsidies are crucial



HOUSING SUBSIDY IN OTHER SYSTEMS

- USA
 - The US system typically uses the term “affordable housing” rather than “subsidized housing”.
 - The largest housing subsidy in the US is the home mortgage interest deduction, which allows homeowners with mortgages on certain owner-occupied homes to deduct the mortgage interest paid during the year. Mortgage interest deductions in 2012 cost the government about \$110 billion, according to government accounting records.. Interestingly, in Canada -a similar market economy - does NOT provide mortgage interest deductions but achieves very similar housing outcomes.
 - The Housing and Urban Development (HUD) agency runs affordable housing programs in the US. The programs are run through the disbursement of grants to supplement low-income purchase and/or rental programs throughout the country.
 - National, State and Local communities provide housing subsidies through incentives and cash assistance to developers who build new housing schemes or rehabilitate older properties in their territories for lower income occupants.



HOUSING SUBSIDY IN OTHER SYSTEMS

- UK
 - The historical solution to subsidized housing in the UK has historically been mainly through the provision of “council flats” through local authorities for lower income occupants.
 - Subsidized housing in this system seems to expand or contract according to the government in power – expansion when the Labor party is in government, contraction when the Conservative party is in government.
 - From about the 1950s, subsidized housing was provided by local associations on behalf of the government.
 - In 1980, the (Conservative) government passed a “right to buy” law, enabling residents of council homes to buy them at a large price discount and subsidies.
 - Interestingly, public housing has provided the majority of accommodation for low-income renters in the country.
 - However, public housing has been identified as having severe problems, especially crime, health and social hazards to the renters.



THE NIGERIAN EXPERIENCE IN GOVERNMENT HOUSING SUBSIDY

There have been several subsidy programs by the Nigerian Government at various levels

Federal Mortgage Bank of Nigeria

State Low Cost Housing Schemes

Provision of Serviced Land- Discounted Prices

Federal Home Loans Board

Housing Schemes by Federal Agencies for Staff -



MORTGAGE GUARANTY AS A MARKET EFFICIENCY MEASURE

- Mortgage guarantee provides credit default loss protection to mortgage lenders enabling them to increase the loan to value (LTV) ratio by reducing or removing the necessity for equity contribution by mortgagors.
- Mortgagors can thus access higher value mortgages with lower down payments while the lender can expand into new markets or deepen existing ones.
- Mortgage guarantee indemnifies the mortgage lenders at the point of default of the mortgagor unlike mortgage insurance which indemnifies mortgage lenders after foreclosure process has been concluded.



MORTGAGE GUARANTEE IS SOMETIMES SUBDISIZED

- Mortgage guarantee companies could be state sponsored or privately owned.
- State sponsored mortgage guarantee companies can be “back-stopped”* by the Government or NOT.
- For state sponsored guarantee schemes “back-stopped” by Government, the state takes over from private lenders all or a portion of the credit risk associated with all or a targeted portion of housing loans.
- “Back-stopped” state sponsored guarantees may be subject to political risk of encouraging default or the pitfall of not estimating catastrophic or systemic risks.
- “Back-stopped” state sponsored guarantee programs may also be subject to risk of shifting government priorities, expiration of the program or cessation of funding, which leads to ineffectiveness or lack of desired impact.

(Back-stopped means that in the event of a State Sponsored bankruptcy, the Government would pay the guarantee claims)*



DESIGNING A NON-SUBSIDIZED MORTGAGE GUARANTEE PROGRAM IN NIGERIA

- The upcoming Mortgage Guarantee Program in Nigeria is designed as a Private Sector Commercial Enterprise.
- It is paid for by the Borrower which is expected to generate income – thus creating a commercially viable and sustainable product.
- It provides a risk-sharing mechanism between the mortgage guarantee provider and participating mortgage lenders, which risk would have been borne by the mortgage lenders alone.
- It may also provide reduce capital charge through capital relief for legal mortgages as agreed under Basels 2 and 3. This would be extremely advantageous for participating mortgage lenders.
- This design is expected to produce a much more sustainable product for the uniquely suited to the Nigerian system



NHFP'S PROPOSED MORTGAGE GUARANTEE COMPONENT

Proposed Nigeria Mortgage Guarantee Company (NMGC)

Paid-up Capital
N6 billion

*Tier II Capital -
N6 billion

The NMGC would bear 50% of credit risk and maximum payment of indemnities to lenders would be limited to 40% of the original loan amount.

Legal Mortgage
Guarantees up to
90% LTV

Equitable
Mortgage
Guarantees up to
85% LTV

Regulatory Proposals

Capital Relief – 50% risk weight
for legal mortgages

Compulsory guarantees for LTV
above 70%

*Tier II capital to come from USD 25 million allocated to the mortgage guarantee component of the World Bank IDA loan



NHFP'S PROPOSED MORTGAGE GUARANTEE COMPONENT

NMGC Major Milestones

Designation of Mortgage Guarantee and Mortgage Refinance as banking businesses by the CBN Governor

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Regulatory

Drafting of the Regulations for the operations of a Mortgage Guarantee Company (MGC) and exposure for public comments

Abridged training of select Bank Supervisors from Banking Supervision Department, Financial Policy & Regulation Department and Other Financial Institutions Supervision Department on the operations of an MGC



NHFP'S PROPOSED MORTGAGE GUARANTEE COMPONENT

NMGC Major Milestones – Business

This is being facilitated by Dunn Loren Merrifield (DLM), a professional financial advisory firm engaged by NMRC.

Incorporation of the institution with the name Nigeria Mortgage Guarantee Company (NMGC).

Preparation of an investment memorandum. (NMRC has accepted the role of anchor institution for the set-up and incubation of the NMGC)

Drafting of term sheets and shareholders agreement for the NMGC

Proposal for Roadshow targeted at Commercial Banks and Primary Mortgage Banks. African Development Bank has indicated willingness to invest in the NMGC



REFERENCES

- The Design and Implementation of Subsidies for Housing Finance – Marja C. Hoek-Smit and Douglas B. Diamond (March, 2003)
- Wikipedia
- Financial Dictionary
- Africa Housing Finance Yearbook 2018



Thank you
for listening

QUESTIONS?