

REAL ESTATE FINANCING IN NIGERIA

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1. Introduction

The financing of real estate, which includes our homes, shopping centres, office buildings, farms, and factories, is expected to be one of the major responsibilities of our financial system.

After examining the special characteristics and problems in real estate financing, we intend reviewing the most commonly used methods and institutions for financing real property. We do not intend to cover the speculative aspects of real estate dealings — the « how to make a fortune in real estate ».

It is generally believed that well-selected land and buildings represent one of the soundest investments available, and that their value increases by two basic factors:

- (i) by the influx of people into any specific area, and
- (ii) by the normal inflationary cycle we now live with.

The former dependence on individual savings that may or may not be available in the local community is now giving way to a major alternate source of funds — borrowed money raised by lending institutions, employing more standardized lending procedures.

The economic importance of real estate transactions is so obvious that most people are only vaguely aware of the tremendous impact of real estate transactions on the financial market.

The field of real estate finance is in a state of continuous change, change in practices, methods, clientele, and sources. Professionals in real estate, like professionals in every field, must stay abreast of these changes if they are to remain professionals.

In a growing economy like ours, the pools of lendable money were not always readily available where needed, or were not always known to a potential borrower. To help bridge the gap, a new industry gradually developed that is now known as mortgage banking. The mortgage banking business has developed from a small service or brokerage facility in the late 1800s in America and Europe into a major banking industry today.

The growth of government assisted financing has paralleled and supported the growth of the mortgage banking industry. The importance that the government places on the housing industry is indicated by the many programs and banking procedures that have been implemented to assist the industry in its efforts to combat the financial problem that plague stable operations.

2. Real Estate Financing Problem and the Mortgage Finance Market

1. *Nature and Problem*

The problem of real estate financing is more acute in a developing country like Nigeria than in a developed country like the U.K. mainly because of the lower per capita income and paucity of external sources of finance in the former than in the latter.

Among the major subsectors in Nigeria's financial or capital market, the mortgage finance market appears to be relatively less-developed and functions in a less satisfactory manner.

A relevant question thus concerns the reason why the mortgage finance market seems to suffer so acutely from the condition of limited funds. If there has always been a capital shortage in this market, why have not the forces of the market place or social policy tended to eliminate the disequilibrium over the years?

Here, we should note two characteristics of the capital requirements for real estate development. In the first place, the volume of capital required is large and the capitalized period rather long. Secondly, except for direct equity investment in, say, rental housing, the nature of the capital item itself does not produce a high annual yield in monetary terms, especially in a system which places primary emphasis on rapid monetary returns.

In Nigeria, the growth of financial institutions to provide funds for real estate development has been slow. Lack of effective demand for housing finance on an economic basis reflected primarily the low average per capita income, resulting largely in lack of developed commercial sources of housing finance in the country.

Generally, the housing industry is at a comparative disadvantage in the competition for funds in the capital market for several reasons. Firstly, investments in other industries are usually of shorter duration than housing investments and can be accommodated more readily to changes in the returns on invested funds. In the second place, housing finance also differs from other capital investment in the source of its funds. Capital for long-term industrial and other investments is drawn in large part directly from internal finance, e.g. corporate income in the form of reinvested earnings. But more than half of all residential mortgage funds comes from the relatively small savings of individuals who have share accounts in building societies or deposits in other mortgage-type institutions and savings banks.

Home mortgages fulfil two major economic functions: Financing new homes and facilitating the change of hands of old homes through refinancing. Thus, apart from the huge financial requirements involved in meeting the targets for additional dwelling units, the volume of re-sale of existing homes requiring new financing may be as much as twice the volume of new residential construction.

The demand for home mortgages depends on the desired or actual volume of home construction which, in turn, is determined by a complex of economic and non-economic factors. These include the movements of consumers' income, costs of home construction, and home mortgage loan terms (interest rate, amortization schedule and loan-to-value ratio). The supply depends on the trend in the total funds available to the financial institutions making the bulk of home mortgage loans, and on the share of their loanable funds that they allocate to home mortgages — a share greatly influenced by the difference between the interest rate in home mortgage and alternative investments.

Apart from the fact that urbanization and economic growth have contributed to the capital inadequacy in the mortgage finance market, the major factors contributing to the greater financial implications of real estate development include:

- (i) increased land costs (a major area of increase),
- (ii) higher standards,
- (iii) cost of the structure (materials, labour and profit), and
- (iv) higher financing and administrative costs.

All these show significant increases in cities like Lagos which thereby further aggravated the capital shortage in the mortgage market.

2. *Secondary Mortgage Markets and Institutions*

The organisation of a secondary market enables a wider variety of institutions to participate in the housing finance market and at the same time it leaves the origination and servicing of loans in the hands of specialists. The originating institutions either « package » the mortgages into large parcels for sale to other institutions or issue bonds backed by parcels of mortgages, which serve to channel funds to housing finance.

A primary market exists when a lender extends funds directly to a borrower. This

would occur whether the lender is originating the mortgages for its own portfolio (e.g. thrift institutions) or for sale to another investor (e.g. a mortgage company).

The secondary market exists when primary lenders and permanent investors buy and sell existing mortgages from each other. This activity could occur as part of the normal course of business for the mortgage lender, or be utilized only during periods of credit restraints.

Secondary mortgage markets perform some important economic functions. In order to provide the needed economic assistance to mortgage lending, a secondary mortgage market should perform these four important economic functions:

- (i) Provide liquidity — through existence of ready market.
- (ii) Moderate the cyclical flow of mortgage capital.
- (iii) Assist the flow of capital from surplus areas to deficit areas.
- (iv) Lessen the geographical spread in interest rates and allow for portfolio diversification.

3. *The Mortgage and Promissory Note*

The collateral pledge that has given its name to the entire field of real estate finance is the mortgage. A mortgage is simply a pledge of property to secure a loan. It is not a promise to pay anything.

It is the promissory note, the actual promise to pay, which accompanies, or in some cases becomes a part of, the mortgage instrument, that is the real proof of the debt. When the promissory note falls into default, the mortgage instrument is activated and becomes the means of protecting the lender's collateral.

The mortgage as a grant of title to property. Loans can be made with real estate as the collateral security.

In its earliest forms, a property pledge to secure a debt was an actual assignment of that property to the lender.

The mortgage as a lien. Another way in which land can be pledged as security for a loan is by means of granting a lien. A lien constitutes an encumbrance on property. It is a declaration of a claim to a parcel of land for some purpose that is recorded in the public record.

3. Sources of Real Estate Financing

1. Sources of Mortgage Money

To understand real estate financing it is necessary to examine the specific sources of mortgage money along with the incentives and constraints under which they operate.

The major sources are the large institutional lenders — commercial banks, life insurance companies, several government agencies, such as the Federal Mortgage Bank. The lesser sources include individuals, trusts, pension funds and some others.

Even though mortgage companies have an important part to play in the industry, they are not considered a « source » in providing a reservoir of cash from which to make loans. Rather mortgage companies serve as an intermediary between the major sources and the borrowing public. They are classed as « non-institutional » lenders.

Regardless of the source, all mortgage lenders hold some common qualifications including:

- (i) A substantial pool of cash available for long-term investment.
- (ii) A predictable, or reasonably controlled, inflow and outflow of funds from the pool.
- (iii) Adequate personnel knowledgeable in the special requirements of mortgage lending.
- (iv) Legal qualifications permitting long-term loans with real estate as collateral.

2. Mortgage Companies

Mortgage companies not only arrange for permanent financing of all types of mortgage loans, but also use its own resources to fund the loan initially, sometimes handling the interim or construction financing and finally servicing or administering the repayment of the loan for the permanent investor.

Although mortgage companies vary widely in their methods, the business organization common to most operates by means of three basic divisions:

- (i) Administration
- (ii) Loan servicing
- (iii) Loan acquisition

Mortgage companies have good contacts with many sources of money and are familiar with the special needs of each for investments.

2. *Limited Development of Private Mortgage Finance Institutions in Nigeria*

For a number of reasons, the bulk of housing construction in many countries has been carried out under predominantly private auspices and financed largely with privately-owned and controlled funds. The major forms of institutional framework include the following:

- (i) *Building societies* — These might be patterned after those in the U.K. or after the mutual savings and loans associations in the U.S.
- (ii) *European - type mortgage companies* — This is a system under which a private corporation obtains funds by selling its own bonds to the investing public.
- (iii) *Commercial banks* — These, as a rule, provide only a limited volume of funds of the type and on the terms required for home financing.
- (iv) *Consumer building cooperatives* — Here, members' contributions normally can only provide enough for the necessary down-payment.

The major forms of private institutional sources of real estate finance in Nigeria are shown in Table 1(a).

Table 1(a)

INSTITUTIONAL FINANCE FOR HOUSING * IN NIGERIA

(END DEC.)	(N MILLION)				
	1972	1973	1974	1975	1976
1. Commercial Banks	11.6	31.6	39.1	65.4	131.7
2. Nigeria Building Society	13.3	14.8	20.8	31.5	n.a.
3. Insurance Companies	2.6	3.9	8.3	n.a.	n.a.
4. Merchant Banks	n.a.	n.a.	n.a.	5.8	6.7
Total	27.5	50.3	68.2	102.7	138.4

* This is made up of owner-occupied and commercial property.
n.a. - Data not available.

Sources: (i) Central Bank of Nigeria.
(ii) Federal Mortgage Bank - *Report & Accounts of the Nigeria Building Society* for the various years.
(iii) Insurance Registry, Lagos.

In addition to the organised market for housing finance in the country, there are other groups of lenders operating in an unorganised or informal way. Pension funds occasionally provide finance, as do industrial and commercial bodies for employees. A certain amount of interpersonal lending also exists. As a result of the limited development of mortgage financing institutions in Nigeria, a major source of financing is self-financing or personal savings used to finance all or part of the purchase of a dwelling. But in view of the factors noted which have contributed to the greater cost of financing housing construction in recent years, self-financing has become grossly inadequate as a source of financing real estate development. Self-financing has, therefore, to be supplemented by external or institutional financing, especially for large estates or buildings for commercial purposes.

From Tables 1 (a) & 1 (b) it can be noted that commercial banks constitute the major source of private institutional finance for housing in the country, making available about half of total institutional sources, while the Federal Mortgage Bank (formerly the Nigeria Building Society) made available about 30%, insurance companies about 10% and merchant banks about 5%. But while all other financial institutions usually make available only a small proportion of their total funds as housing finance, the Federal Mortgage Bank used to invest the bulk of its funds in mortgage asset: 92% in 1960, 87% in 1968, 92% in 1972 and 75% in 1975, 95.2% as at 31st March 1978 and 60.6% as at 31st December 1980. The insurance companies invested only an average of 6% of their investible funds in mortgage assets from 1969 to 1974; while the commercial banks invested only an average of 1.5% of their resources in residential buildings from 1972 to 1976 and the merchant banks only an average of 3% in 1975 and 1976.

Noting, therefore, that the banks and insurance companies could still increase substantially the volume of their finance to housing, the Nigerian Authorities directed through the Central Bank credit guidelines that commercial and merchant banks' investment in residential building construction should be at least 5% of their total lendings during the 1977/78 period. This policy has since been in operation, albeit in modified forms from time to time. Table 1(b) shows the increased financing by the commercial banks.

For instance, according to the « Monetary Policy Circular No. 16 - Central Bank Credit Guidelines for 1983 Fiscal Year », bank loan facilities granted for residential building construction are excluded from the credit ceiling imposed on banks. Also, loans for residential buildings shall be for a minimum period of fifteen years except at the

instance of the borrower. Commercial and merchant banks are required to grant not less than 6% of their loans and advances for residential buildings, i.e. treated under the « Preferred Sectors » of activities. A preferential interest rate of 7% is also prescribed as lending rate for loans granted for residential housing costing not more than N100,000 as against the maximum rate of 13% for less-preferred purposes.

As rightly noted by the Rent Panel (1976)* « it is not enough to say that a certain percentage of the total loan portfolio ought to go to residential housing project ». The terms of the mortgage loan should be such to make it possible for more prospective home-owners to have greater access to the loans; but this does not necessarily mean the commercial banks and other financial institutions should not be allowed to charge a rate of interest considered reasonable when comparable types of investments are considered. To make this type of a relatively illiquid lending attractive to the banks, they would like to charge more than the present lending rate prescribed by the Authorities — i.e. more than the present maximum 7% interest rate prescribed.

Also, according to section 18 of the *Insurance Decree, 1976*, insurance companies can grant loans to approved building societies; non-life insurance companies can invest up to 10% of their assets in real estate property; and the size of life assurance funds that can now be invested in real estate has been raised by 15% to 25%. Insurance companies are not particularly enthusiastic providers of housing finance, which they regard mainly as a means of selling endowment policies. But with the paucity of alternative investment outlets for their investible funds in Nigeria, they should be able to invest up to the maximum prescribed percentages of their funds in mortgage assets.

4. Illustrated Case of Real Estate Financing by Banks

As discussed above, banks play a major role in real estate financing. For instance, the United Bank for Africa has announced a N50 million Abuja Residential Housing Loan Scheme. The scheme is designed to provide financial assistance to Nigerians desiring to build houses of their own in Abuja. As announced by the Chairman of the Bank (Mr. Michael Audu Buba), under the scheme, N5 million will be disbursed annually over the next 10 years.

Some important aspects of real estate development for which finance may be provided include the development of building sites, the construction of houses and blocks of flats.

1. *Some Issues in Real Estate Development Financing*

Advances for estate development occur frequently, because considerable finance is necessarily tied up while development work is in progress and before sales can occur. The developer's problem is basically that he produces a relatively small but expansive number of units with slow sales as opposed to, say, a retail shop where prices are low and sales brisk. In a retail shop it does not make much difference to the overall financial position if one line of items fails to sell, but any delay in house sales can have a very large effect on the finances of a developer.

If, instead of houses, a block of flats is being built, the loan proposition to banks will be of a more speculative nature and a lending proportion at one-half of costs instead of two-thirds for houses would be wiser. Sometimes, a bank is asked to finance the purchase of land for future development and it is natural for an active developer to keep a reserve of land available. For good customers, bank finance should be available but as such finance is predominantly short-term, a reserve of one or two years' supply should be all that a bank could help to finance.

A bank, when considering finance for real estate development, will have to take into account all the usual banking criteria and ask the normal questions which apply to all requests for finance, but, as explained, there are certain specific items which must also be covered and for ease of reference they are listed below:

- (i) Has planning permission been obtained?
- (ii) Is the site suitable?
- (iii) Are the houses to be a type which will sell easily?
- (iv) Are the builders competent?
- (v) What is the plan for developing the site?
- (vi) What will be the amount tied up in retentions?
- (vii) What will be the arrangements for repayment of the advance?
- (viii) Is a cushion of finance available?
- (ix) Has a cash projection been prepared?
- (x) Are indemnities required?

If a builder does not provide all the finance himself but asks the bank to help, the bank will similarly wish to know that these points have been considered thoroughly. The

bank may well wish a local agent to give his opinion whether a quick sale will be achieved, and it will also have to satisfy itself that the builder has sufficient experience to carry the transaction through in a satisfactory way. Finally, the bank will have to make sure that, should difficulties occur, the builder has a reserve of finance which he can use. This cushion of finance is very important as, unless it is available, the bank may well find itself in the position of accepting the risks of an entrepreneur, and this is not its business.

For example, if a plot of land cost N6,000 and was paid for by the builder, and building costs were estimated at N40,000 towards which the builder had another N4,000, the bank might provide N30,000. The bank might well be happy with this arrangement but, if N30,000 was the top figure to which it wished to go and the builder had no cushion of finance for an emergency, financial trouble could well materialise. This would be evident to the bank because, if all the finance were used before the house was completed, it would be unable to extricate itself without advancing more money to enable it to be finished. To prevent such a situation occurring, the banker must be confident that the builder is experienced and that a cushion of finances is available to meet contingencies: it is simply courting danger to agree to advance the maximum sum on a building project without considering where additional finance will come from in an emergency.

2. Estate Developments as Security

If no other security is available and the bank is to take as security the house being built, it will be necessary to consider at what stage the building will be worth enough to be considered of some saleable value. The land is worth something just as a plot and lending 50 per cent of its value should see the bank safe in the event of a forced sale and also achieve the object of getting the builder to provide a reasonable stake. Naturally, digging of foundations, laying footings and doing all the preliminary work is of value to the builder, but if it came to a sale at that point (due to the builder's failure or some other cause) little beyond site value would be realised. It is normally advisable to have the roof on if the house is to be completed without difficulty by another builder and, if no other adequate security is available and the builder's finances do not warrant unsecured facilities, this is the point at which a start can be made to value the work for security purposes.

Lending up to two-thirds of the cost of the work done is a reasonable basis, and if one takes into account materials which the builder has provided but not yet used and the

delay in certifying the work done, then the finance provided by the builder for the project would probably be near to one-half of the total. At the completion of the building the bank will have provided more finance than the builder but at that stage, if planning has been good, the house should be under contract for sale and repayment of the advance will be quickly achieved. After the roofing stage, advances can normally be made on completion of plastering, and when the house is finished; this gives a total of three stages. A surveyor could certify the work done at each of them and the bank would then be able to lend two-thirds of the building costs plus two-thirds of the cost of the land. The proportionate increase of one-half to two-thirds of the cost of the land can be taken into account when the property is roofed.

If the builder is experienced, has a good balance sheet, and adequate capital which can be called upon in emergencies, the bank might well agree to advances in four stages, i.e. plate (to top of walls), roofed, plastered, finished. In every case, however, both the formula and the stages should be agreed.

3. Stages of Completion

To take a simple example of one house being built on land costing N10,000 with construction costs of N40,000 for an estimated sale at N60,000, we could come to the following stages for the advance:

Stages	Amount to be advanced
1. <i>Half cost of land</i>	N 5,000
2. <i>Plate level</i> Half cost of land (as above) plus two-thirds cost of construction of N7,500	N10,000
3. <i>Roofing</i> Two-thirds of cost of land (2/3 of N10,000) plus two-thirds of construction costs of N14,000	N16,000
4. <i>Plastering</i> Two-thirds of cost of land (as above) plus two-thirds of construction costs of N26,000	N24,000
5. <i>Finished</i> Two-thirds of cost of land (as above) plus two-thirds of construction costs of N40,000	N33,330

At this stage the builder would have provided N16,670 to complete the cost of N50,000 and a sale at N60,000 would realise a profit of N10,000. Alternatively, this could be

expressed by saying that, in the house valued at N60,000, the bank's stake is N33,330 and the builder's N26,670, being his costs plus the additional value created.

4. *The Underwriting Decision*

When all information relating to a borrower's financial capabilities, credit characteristics and the physical security are present, a decision must be made to accept, reject or modify the mortgage loan application.

All of the items must be reviewed individually and in conjunction with other items being considered. For example, a number of credit characteristics may have deficiencies that are not serious when considered alone, but when combined with other characteristics could affect a mortgager's ability or willingness to pay, possibly leading to a default.

For the financing of real estate and construction, the commercial banks made available the loans and advances shown in Table 1(b) for 1976-1980, which shows the percentage share of total loans and advances as rising from 18.93% in 1976 to 22.94% in 1980.

Table 1(b)

COMMERCIAL BANKS' LOANS AND ADVANCES FOR REAL ESTATE & CONSTRUCTION

(N MILLION)

	1976	1977	1978 December	1979	1980 June
Loans For Real Estate (A) & Construction	412.3	662.0	882.8	1,051.5	1,201.0
Total Loans & Advances (B)	2177.9	3074.6	4109.7	4624.4	5234.5
% of Total (A/B %)	18.93	21.53	21.48	22.73	22.94

Source: Central Bank of Nigeria, *Economic & Financial Review*, June 1980.

5. The Federal Mortgage Bank

The first conscious effort made at home finance in Nigeria was in 1956 when the Colonial Development Corporation (CDC) in conjunction with the Nigerian Federal Government and the Eastern Nigeria Government formed the Nigeria Building Society Limited (NBS) with a capital of N2.25 million for the purpose of lending money for house ownership.

The Federal Mortgage Bank (formerly the Nigeria Building Society) is now the major special mortgage finance institution in the country. Such other building societies as the City Building Society, cooperative building societies and a few others function at present mainly on a private basis and on a very limited scale.

The Nigeria Building Society was incorporated on 29th December 1956 and it commenced business in 1957, when the amount of its net mortgage asset was only N2,302, rising to N31.5 million at the end of December 1975. An analysis of its sources and deployment of funds is shown in Table 2. The conversion of the Nigeria Building Society into the new status of Federal Mortgage Bank was formally inaugurated on July, 4, 1977.

As at December, 1975, government funds at the disposal of the Nigeria Building Society amounted to about 70% of its resources of N42 million (i.e. in form of N23.4 million loans and N6 million shareholders' funds). The re-organisation of the Society into the Federal Mortgage Bank does not appear to mean much as regards its mode of operation, other than the fact that its scope of operation is now widened, with an injection of N150 million capital. It can now accommodate both private and public mortgage financing requirements to a larger extent. Thus, its total assets rose from N42 million in 1975 to N98.7 million in 1978 and N343.2 million in 1980, as shown in Table 2. Details of the Bank's real estate financing in the various states of the Federation are shown in the Appendix Table.

In a Radio Nigeria Newstalk broadcast on 23 June 1977 on « The New Loan Policy of the Federal Mortgage Bank », the writer of this paper fully commented on the extent to which the new mortgage institution could meet the gigantic housing finance requirements in the country. In particular, the need to modify its defective interest rates policy was stressed.

It is gratifying to note that the Mortgage Bank now views its role more as a specialised savings and home financing institution than as a mere dispenser of state funds — in line with our earlier suggestion.

Table 2

FEDERAL MORTGAGE BANK: SOURCES AND DEPLOYMENT OF MORTGAGE FUNDS, 1960-1980

(END DEC.)	1960	1968	1972	1975	1978 *	1980
	(PERCENTAGES)					
<i>Sources of funds</i>						
Share capital	91.8	34.6	22.4	7.7	9.1	43.7
Other fed. govt. fund	—	—	—	—	—	22.4
Capital reserve	—	3.8	2.5	1.8	—	—
Revenue reserve	0.3	1.1	3.2	4.3	2.2	1.4
NBS (New Worth)	—	—	—	—	1.2	0.3
Total capital, reserves, etc.	92.1	39.5	28.1	13.8	8.1	67.8
Loans (By Fed. Govt. of Nigeria)	—	27.0	23.1	55.7	67.1	17.5
Future taxation	1.6	0.8	1.9	1.1	—	—
Customers' deposits	3.8	29.5	44.8	28.2	19.7	11.9
Current liabilities	2.5	3.2	2.1	1.2	5.1	2.7
Total liabilities	100.0	100.0	100.0	100.0	100.0	100.0
<i>Employment of funds</i>						
Mortgage assets	92.1	86.9	91.6	74.9	95.2	60.6
Net fixed assets	3.8	2.1	1.3	0.7	1.0	1.3
Current assets	3.8	11.0	7.1	24.4	3.8	38.1
Preliminary expenses	0.3	—	—	—	—	—
Total assets	100.0	100.0	100.0	100.0	100.0	100.0
Amount (Nm)	3.2	9.4	14.5	42.0	98.7	343.2
Deposits Received as % of Mortgage Asset	0.1	33.9	48.9	37.7	20.7	19.6
Share Capital Received as % of Mortgage Assets	99.7	39.8	24.4	10.3	9.6	72.1
Loans Received as % of Mortgage Asset	—	31.1	25.2	74.4	70.5	28.8

* As at 31st March, 1978.

Sources: Annual Reports and Statements of Accounts of The Federal Mortgage Bank of Nigeria (Formerly the Nigeria Building Society).

In terms of the promotion of its financial intermediation role, the Bank's interest rate structure has not been quite helpful in the past, especially when it paid 4-5% interest p.a. on deposits and charged only 3% interest p.a. on mortgage loan. It should step up its mobilisation efforts, e.g. by making interest rates more attractive to depositors.

While the rate charged on housing loans might not be as high as in the case of the funds mobilised for granting the loan, borrowing rates should, other things being the same, determine lending rates, allowing a margin for expenses and addition to reserves.

Applicants for the Mortgage Bank's mortgages are first screened by an income qualification and a certain percentage down-payment. Since many low-income earners are not qualified for its loan scheme, Government housing assistance to the bulk of urban population in need of adequate residential accommodation should be mainly in form of financing multistorey blocks of flats which could be made available to them at such rates of rent that take the income of the tenants into account. This policy of the Bank as well as similar government policy on granting housing loans to its staff, whereby mortgage loans are granted at highly subsidised rates to a few well-to-do and higher income earners (who happen to qualify for mortgage loans) should be modified. This will make more funds available for the financing of the rapidly rising urban housing requirements to satisfy a greater number of the people.

6. Some Alternative Financing Methods

1. *Sale of Mortgage Bonds*

Gradually over the years, the sale of bonds has grown in importance as a method of financing real estate investments.

Because the sale of any kind of security, whether stocks or bonds, requires some established record and credibility, developers and home builders taking this step are usually limited to better known companies and individuals of strong financial worth. A bond issue secured by a pledge of real property would be termed a mortgage bond. Money is borrowed by selling the bond certificates.

2. *Private Placements of Securities*

There is a growing trend to bypass public markets and place both stock and bond issues directly with an investor.

It is within this field of the private placement of securities that mortgage bankers have become increasingly active and directly competitive with the investment banker.

Mortgage companies have good contacts with many sources of money and are familiar with the special needs of each for investments.

3. *Sale and Lease-Back*

The purpose of a sale and lease-back is to allow a property owner to convert the equity value of an owned building into cash, while retaining the possession and use of the property. For the purchaser of the property, the arrangement provides a sound income-producing investment in a proven, existing property. For example, a wholesale supply firm owns an existing warehouse building and is in need of more capital to expand inventory. The building is sold to an insurance company in need of a long-term investment for its money. Simultaneously, a lease is executed with the wholesale supply firm granting continued occupancy of the premises. The supply firm now has the cash to expand.

A variation of the sale and lease-back procedure is a *build-lease* agreement. Instead of purchasing an existing building, the investor contracts with a tenant to build a suitable building and lease it upon completion. In this manner, the investor has an assured income from future rentals (which can be used to assist further financing), and the tenant obtains the use of a specially designed building that best suits his purposes.

The build-to-lease procedure is used by major companies, such as oil companies seeking to expand their marketing operations, who will build and lease a service station for a particular tenant.

4. *Use of Other Collateral*

Mortgage loans can be made on the basis of the real property plus some form of collateral that may be pledged. If the borrower needs more money than the property alone will permit, the lender can ask for more security. With additional collateral, the lender has recourse to other assets for recovery of the loan if it becomes necessary.

5. *Special Types of Financing*

While most mortgage financing follow a fairly standard pattern of a first mortgage as security based on a reasonable loan-to-value ratio and fully amortized over the term of the loan, there are some interesting variations that can be used in special circumstances. When the situation calls for a more flexible approach to a loan, some basic methods might be considered, either separately or in combination as need or

imagination may inspire; e.g. the Wrap-Around Mortgage — a method used to facilitate the sale of a property by encouraging the seller to assist with the financing of the sale. Some extended terms may also be granted to facilitate the purchase.

7. Financing Real Estate in the Future

The emphasis for new solutions to the old problem of finding sufficient mortgage money at a marketable cost has begun to turn towards new sources of money. The increased use of mortgage-backed securities as a method of raising funds may well become a major funding source for the 1980s.

The increasing costs of housing are forcing urban construction into higher density structures such as apartments, townhouses, etc. Development, however, will continue to be needed in both large and small communities. The smaller communities do not present a market of sufficient size to attract the largest builders, and, therefore, will continue to be served by the individual entrepreneur. The large development companies can flourish.

To tackle the real estate financing problem in the country, the mortgage finance market, as discussed in the paper, should be developed further. As regards the development of mortgage institutions in Nigeria, what the state could more usefully do is to encourage the development of mortgage institutions that can operate wholly as financial intermediaries — collecting mainly the savings of individuals, from which the demand for both residential and commercial buildings could be met.

In order to promote mortgage lending on the part of both new and existing financial institutions in the country, some of the measures that might be employed include:

- (i) the development of a universal mortgage instrument - in form of a simple clear document which is readily understood and acceptable for marketing in any part of the country;
- (ii) the establishment by the Government of a system of mortgage guarantee or insurance, so as to further facilitate investment in mortgages; and
- (iii) the development of a system of secondary mortgage markets to reduce the illiquidity of mortgages.

Also important is the encouragement of private cooperative savings and building systems in the country. In this system, profit and overhead expenses can be

eliminated and thereby bring down the rising housing financing costs, which will be to the benefit of members.

Furthermore, institutional arrangements governing housing finance, such as interest ceilings and collateral requirements should be reviewed to ensure that they do not inhibit the mobilisation of savings for housing.

In Nigeria, where a better housing policy is adopted by the government, it is certainly possible, with available funds, to build more multi-storey blocks of flats in the urban centres to meet the present acute shortage rather than channelling the funds, as in the past, into a system of individual housing loans which more often serves to finance the construction of status buildings or, in some cases, uninhabited « places » of a small fraction of the population. Individuals having tastes for such grandiose building construction should approach the mortgage finance market to satisfy their mortgage finance requirements.

Appendix Table

FEDERAL MORTGAGE BANK: CONTRIBUTION TO REAL ESTATE FINANCING IN THE STATES
(N)

	1982	1980	1979	1978	1977
Anambra	3,281,408	3,514,430	1,358,840	4,577,282	294,000
Bauchi	3,608,890	1,817,250	1,090,750	262,000	145,000
Bendel	2,334,180	3,528,372	787,850	3,861,625	355,050
Benue	1,863,182	5,722,595	809,250	604,250	268,000
Borno	2,000,640	1,254,800	606,500	583,000	198,000
Cross River	3,304,495	3,093,280	923,860	1,695,600	328,500
Gongola	1,356,750	2,717,470	556,250	356,000	186,000
Imo	3,891,091	4,511,730	601,000	1,397,150	478,000
Kaduna	1,682,452	6,670,445	384,800	4,226,030	1,733,500
Kano	1,758,900	2,210,600	238,000	1,279,830	941,100
Kwara	1,782,816	2,048,032	676,500	1,412,650	242,800
Lagos	8,698,841	15,123,343	8,426,375	19,597,018	2,631,050
Niger	2,262,283	4,434,900	48,000	181,500	90,000
Ogun	1,425,862	2,689,849	819,650	543,100	510,750
Ondo	1,489,956	4,089,949	1,106,550	564,000	315,000
Oyo	2,424,451	835,038	1,199,450	3,721,180	1,318,350
Plateau	1,350,883	2,578,179	727,500	2,796,300	1,149,410
Rivers	3,350,883	1,543,508	1,121,753	4,312,316	539,900
Sokoto	1,736,600	4,429,500	473,500	5,143,980	1,623,650
Total (Retail)	49,512,925	72,813,265	21,956,428	57,015,731	13,357,060
(Wholesale)	1,468,171	20,168,851	4,250,000	—	6,584,500
Grand total	50,981,096	92,982,116	26,206,428	57,015,731	19,941,560

Source: Federal Mortgage Bank of Nigeria, Lagos.

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LE FINANCEMENT DES BIENS IMMOBILIERS AU NIGERIA

RESUMÉ

L'article se propose d'analyser la structure institutionnelle du financement de la propriété immobilière au Nigéria et les problèmes concernant ce domaine. L'article se divise en six sections. Après une brève introduction dans la section 1, on essaie, dans la section 2, d'examiner la nature du problème concernant le financement de la propriété immobilière au Nigéria et d'analyser les traits saillants du marché du financement hypothécaire. Dans la section 3, on décrit les sources principales de financement du secteur et on met en relief le fait qu'au Nigéria les institutions privées de financement hypothécaire n'ont atteint qu'un faible niveau de développement. Dans la section 4, on illustre le cas du financement hypothécaire de la part des banques et dans la section 5 on évalue brièvement le rôle de la Federal Mortgage Bank (l'institution la plus important de crédit hypothécaire du pays) sur le plan opérationnel et on souligne que la banque devrait se spécialiser en tant qu'institution d'épargne et financement du logement plutôt que d'être une simple agence de distribution des fonds du gouvernement. Dans la section 6, on indique des méthodes alternatives de financement hypothécaire avant d'arriver, dans la section 7, aux conclusions et à quelques suggestions pour faciliter le financement des biens immobiliers dans le futur.

D'après les auteurs, on pourrait mieux faire face au problème du financement de la propriété si on développait davantage le marché du crédit hypothécaire, et en ce qui concerne le développement des instituts de crédit hypothécaire du Nigéria, il faudrait qu'ils puissent devenir des intermédiaires financiers proprement dits — c'est à dire collecter l'épargne des particulier, ce qui leur permettrait de satisfaire la demande de financement de bâtiments résidentiels et commerciaux. Et pour promouvoir le crédit hypothécaire de la part des institutions existantes ou de nouvelles institutions on pourrait adopter les mesures suivantes:

- (1) développer un instrument hypothécaire universel sous la forme d'un document simple et clair qui puisse être compris et accepté dans tout le Nigéria;*
- (2) établir, au niveau du Gouvernement, un système d'assurance des hypothèques, dans le but de faciliter l'investissement dans ce domaine;*
- (3) développer un marché secondaire des hypothèques pour en augmenter la liquidité et encore promouvoir la création de coopératives d'épargne et des systèmes de construction privés.*

Enfin il faudrait reviser les mécanismes réglementaires sur le financement à la construction de logements, tels que les plafonds sur les intérêts et le système de garanties, de façon qu'ils n'entravent pas la mobilisation de l'épargne pour le développement de la construction de logement et de la propriété immobilière en général.