WEALTH CREATION
THROUGH ROBUST MORTGAGE AND CONSUMER CREDIT SYSTEM IN NIGERIA

Taiwo Ayedun

Email: taiwoa@creditregistry.com

Phone: 0803-330-1552

TABLE OF CONTENTS

EXECUTIVE SUMMARY

This policy paper aims to provide a roadmap for the newly-elected government of Nigeria to create wealth through the development and implementation of a robust mortgage and consumer credit system comparable to that of the United States where mortgage and consumer spending drive about 67% of US GDP. The goal is to create a system that fosters economic growth and stability by enabling property ownership and consumer spending, while minimizing systemic risks and maintaining affordability.

Preamble

The biggest investment for most families is the purchase of a home. Homes are unique assets that possess several characteristics that make them ideal for fostering economic growth when they are purchased with mortgage loans and used as collateral for other loans. These characteristics include their immovable nature, appreciation potential, and the role they play in the financial system.

1. Immovable nature: Homes, as immovable assets, are physical properties with a fixed location. This makes them inherently more secure than movable assets, such as vehicles or machinery, which can be easily relocated or hidden. As a result, lenders and investors are more likely to consider homes as reliable collateral for loans and investment because they present less risk in the event of default.

2. Appreciation potential: Generally, homes tend to appreciate in value over time due to various factors such as population growth, urbanization, and improvements in infrastructure. This appreciation makes them attractive investments for both homeowners and lenders. As the value of the property increases, homeowners build equity, which they can leverage to access additional credit. Lenders, on the other hand, benefit from the increased value of their collateral, providing them with a higher level of security in their lending activities.

3. Foundation for credit access: Mortgage loans enable individuals to purchase homes by borrowing a large portion of the purchase price and repaying it over an extended period. This process establishes a credit history for the borrower, which can improve

their creditworthiness and access to other forms of credit. Furthermore, as homeowners build equity in their homes through mortgage repayments and property appreciation, they can use this equity as collateral for additional loans. This access to credit allows individuals to invest in businesses, education, or other wealth-generating activities, fueling economic growth.

4. **Multiplier effects**: The building and furnishing of a home has multiplier effects in increasing employment in other sectors of the economy, including in the vocational employment of bricklayers, electricians, plumbers, painters, and in the manufacturing, assembly and retail sales of furniture, beddings, kitchen and living room appliances, etc.

5. **Wealth creation and consumer spending**: Owning a home can contribute to an individual's overall wealth, providing them with a sense of financial stability and security. As homeowners' wealth increases, they are more likely to engage in consumer spending, which stimulates economic activity and growth. Additionally, the construction and maintenance of homes create job opportunities and support various industries, further contributing to economic expansion.

6. **Intergenerational wealth transfer**: Homes can serve as a means of transferring wealth across generations, allowing families to accumulate and pass on assets to future generations. This intergenerational wealth transfer can create a positive cycle of economic prosperity and social mobility for families and communities.

Taiwo Ayedun
(taiwoa@creditregistry.com)
Phone: 0803-330-1552

In summary, homes are immovable and appreciating assets that, when purchased with mortgage loans and used as loan collateral for other loans, can serve as the foundation for economic growth. By providing individuals with access to credit, fostering wealth creation, and supporting various industries, homeownership plays a critical role in driving economic development and prosperity.

Taiwo Ayedun
(taiwoa@creditregistry.com)
Phone: 0803-330-1552

KEY TRANSFORMATION CRITERIA

The respect for - and effective management of - property rights and capital are key criteria for transforming Nigeria's economy into a robust, resilient, and rapid-growth economy.

Dead Capital

Peruvian economist Hernando De Soto describes "dead capital" as assets that are informally owned and cannot be easily converted into productive capital. In Nigeria, a large portion of the population owns homes without proper legal title and documentation. This informality prevents these homes from being used as collateral for loans or from being sold in formal markets. As a result, this vast pool of resources remains untapped, limiting the economic activity, growth and development potential of the country.

*For example, Nigeria has a population of roughly 200 million. Assuming 10 persons per household, Nigeria would have 20 million households. Of these, assuming that 25% of families (5 million families) live in homes worth an average value of $10,000 that have no title registration, this translates into a **whopping $50 billion in DEAD CAPITAL!***

Transformative Economic Effect of Home Title Registration

Formal property rights, specifically home title registration, is a significant driver of economic growth. In Western countries, formal property rights and a well-functioning legal system allow homeowners to use their property as collateral to secure loans, which can then be invested in businesses, education, or other wealth-generating activities. This process of leveraging property assets to generate capital creates a virtuous cycle of economic growth and development.

Transforming Dead Capital to Build a Great Economy

Nigeria can unlock the potential of its dead capital in untitled homes by implementing comprehensive property rights reforms, including:

1. Establishing formal property registration systems that are **accessible**, **affordable**, and **efficient**, enabling citizens to register their assets and obtain legal title documentation easily in their local government areas.
2. Simplifying and streamlining bureaucratic processes related to property rights, reducing the time and costs associated with formalizing property ownership.
3. Ensuring that legal and regulatory frameworks are inclusive and recognize various forms of informal property ownership, such as customary or communal land rights.
4. Encouraging access to credit by strengthening financial institutions, promoting the use of property as collateral, and expanding financial services to underserved populations.
5. Educating citizens about the benefits of formal property rights, fostering a culture of trust in the legal system, and promoting public-private partnerships to support property rights reforms.

By transforming dead capital into productive capital, Nigeria can unleash the economic potential of her citizens, reduce poverty, and accelerate the country's journey towards economic stability and prosperity. Implementing these reforms will require strong political will and commitment, as well as cooperation and support from various stakeholders, including civil society, and the private sector.

Taiwo Ayedun
(taiwoa@creditregistry.com)
Phone: 0803-330-1552

POLICY ITEM SUMMARY

The key components of this policy include:

1. Establishing a comprehensive digital land registry and title registration system
2. Developing a digital lien registry and title insurance industry
3. Introducing provisions for primary and secondary mortgages
4. Implementing an efficient foreclosure system
5. Promoting a mortgage-backed security market
6. Enhancing the consumer credit market and system
7. Ensuring efficient regulations and management of competitive interest rates
8. Encouraging local and foreign investments in Nigeria's mortgage and consumer credit markets
9. Fostering a competitive lending industry

I. Digital Land Registry and Title Registration System

A foundational step in creating a robust mortgage and consumer credit system is establishing a comprehensive digital land registry and title registration system. This will involve:

1. Digitizing existing land records and incorporating new properties into the system. *This shall be carried out at local government offices for ease of convenience and access by citizens, and the cost shall be negligible and affordable in order to encourage citizens to obtain titles for their homes.* The title registrations at the local government level shall feed into a national title registration database.
2. Streamlining the process for title registration, making it compulsory, automatic, and easily accessible for both current and future properties.
3. Developing a secure and transparent online portal for property search and transactions.
4. Implementing periodic audits to ensure the accuracy and validity of records.
5. Providing training and support for government officials and stakeholders to transition to the new system.

II. Digital Lien Registry and Title Insurance Industry

A digital lien registry is essential for tracking and managing property-related debt. Furthermore, a title insurance industry will minimize risks associated with property transactions. To achieve this:

1. Establish a centralized digital lien registry to record and manage liens and encumbrances. *Lien registration shall be carried out at local government offices for ease of convenience and access by lenders.* The lien registrations at the local government level shall feed into a national lien registration database.
2. Encourage the growth of a private title insurance industry by creating a regulatory framework and offering incentives for insurers. *Lenders and home buyers shall employ the services of title insurers in order to verify and insure unencumbered titles.*
3. Develop standardized practices for title insurers to minimize fraud and streamline operations.

III. Primary and Secondary Mortgage Markets

The development of primary and secondary mortgage markets is necessary to facilitate home ownership and create liquidity for lenders. To do so:

1. Encourage and promote both public and private mortgage lending institutions.
2. Develop standardized mortgage underwriting criteria and documentation requirements.
3. Foster a secondary mortgage market through the establishment of government-sponsored enterprises (GSEs) to purchase and securitize mortgages.
4. Implement regulations and oversight to ensure the stability of the secondary mortgage market.

IV. Efficient Foreclosure System

An efficient foreclosure system is necessary to manage defaults and protect lenders. This involves:

1. Establishing a legal framework for foreclosure that balances the interests of borrowers and lenders.

Taiwo Ayedun
(taiwoa@creditregistry.com)
Phone: 0803-330-1552

2. Implementing a streamlined process for foreclosure, including mediation and alternative dispute resolution options.
3. Ensuring the efficient transfer of foreclosed properties back into the market.

V. Mortgage-Backed Security Market

A mortgage-backed security (MBS) market will provide liquidity and reduce risk for the mortgage system. To create an MBS market:

1. Develop a regulatory framework for the issuance and trading of mortgage-backed securities.
2. Encourage the growth of a diverse investor base, including institutional and individual investors and international and local investors.
3. Implement transparency and disclosure requirements to promote investor confidence.

VI. Consumer Credit Market and System

To enhance the consumer credit market:

1. Promote and empower the licensed credit bureaus to collect and disseminate credit information. Mandate all lenders to utilize the services of licensed credit bureaus to report all loans, and to appraise all borrowers.
2. Encourage the use of credit scoring models for ease and speed of decisioning; develop standardized credit reporting practices.
3. In additional to mortgage loans, encourage the growth of diverse credit products, such as credit cards, personal loans, small business loans, auto loans, etc.
4. Permit competitive lending interest rates while implementing consumer protection regulations to require full lending disclosures and prevent predatory lending practices.

VII. Interest Rate Management and Regulation

To maintain competitive interest rates without increasing inflation:

1. Empower the central bank to set and manage benchmark interest rates, taking into account economic conditions and inflation targets.
2. Implement transparent monetary policy communication to foster market confidence and manage inflation expectations.

3. Establish a regulatory framework for monitoring and enforcing compliance with interest rate policies in the lending industry.

VIII. Attracting Local and Foreign Investments

Attracting investments in the mortgage and consumer credit markets is essential for growth and diversification. To achieve this:

1. Develop a favorable investment climate through stable macroeconomic policies, transparent regulatory frameworks, and strong property rights.
2. Offer incentives, such as tax breaks and grants, to attract investors and lenders to the market.
3. Encourage the participation of international financial institutions in the development of the mortgage and consumer credit markets.
4. Foster public-private partnerships to facilitate investment in housing and infrastructure projects.

IX. Competitive Lending Industry

A competitive lending industry is crucial for the availability and affordability of credit. To promote competition:

1. Encourage the entry of diverse financial institutions, including banks, non-bank lenders, and fintech companies, into the mortgage and consumer credit markets.
2. Implement regulations to prevent anti-competitive practices.
3. Support the growth of innovative lending models and technologies, such as peer-to-peer lending and mobile credit platforms.

Taiwo Ayedun
(taiwoa@creditregistry.com)
Phone: 0803-330-1552

Conclusion

*Implementing these policy recommendations, **especially within the first 2 years of the administration's first term**, will enable Nigeria to develop a comprehensive mortgage and consumer credit system that supports economic growth and stability. By prioritizing the establishment of robust digital land and lien registries, fostering the growth of primary and secondary mortgage markets, and promoting a competitive lending industry, the new government can create a sustainable and inclusive system that benefits all citizens.*

It is estimated that Nigeria holds close to $1 trillion worth of dead capital in residential real estate and agricultural land.

A robust mortgage system can begin to drive investments worth billions of dollars into Nigeria's economy at ZERO interest cost to the government, since the loans are backed by the unleashed "dead capital" in homes that Nigerians have already built, or will build.

Taiwo Ayedun
(taiwoa@creditregistry.com)
Phone: 0803-330-1552