



SECURITIES & EXCHANGE COMMISSION

Webinar on: The Non-Interest Capital Market as Panacea to Mortgage Financing in Nigeria

Non-Interest Capital Market Instruments As alternative source of funding for Mortgage Industry

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Introduction

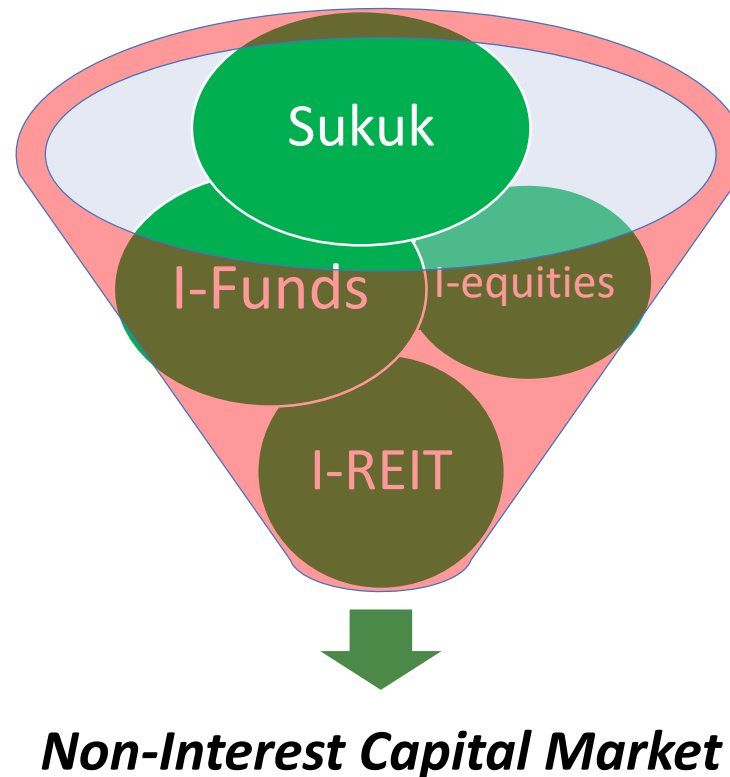
- According to the World Bank (2016) “Nigeria: Developing Housing Finance. UKAID”, the housing deficit has been estimated at up to 17 million and is growing at about 20 percent a year.
- Estimates of output in the formal housing sector range from 100,000 per year to an optimistic 200,000, which covers only a fraction of the 700,000 units minimum required per year to keep up with growing population and urban migration.
- In monetary terms, the housing deficit in Nigeria is more than N100 trillion.
- Nigeria cannot close the gap in the next 20 years and this trend is expected to remain high in the foreseeable future due to amongst others factors;
 - ✓ High rates of new household formation due to population surge.
 - ✓ High rates of urbanization and rural-urban migration due to insecurity
 - ✓ The need to replace dilapidated housing stock.

Introduction

- Barely a month ago, PENCOM released guideline allowing RSA holders to utilize 25% of their RSA balance for the payment of equity contribution towards securing a residential mortgage.
- Out of 9.75 million RSA holders (as at August 2022), 10% (970,000) are estimated to demand for their 25% of RSA to acquire a house.
- At an average price of N5m per house, the demand from RSA holders will trigger capital requirement of N5 trillion in the mortgage industry.
- From the 25% equity contribution of RSA holders who may take advantage of the PENCOM Policy, N1 trillion is estimated to come from such contribution.
- The balance of N4 trillion is estimated to come from “Mortgage Lenders” and other sources.
- Non-Interest Capital Market (N-ICM) is positioned to step-in through its innovative instruments as alternative source of funding Mortgage industry.

Non-Interest Capital Market

The N-ICM market transactions are carried out in ways that do not conflict with the Shari'ah - free from Interest, gambling, ambiguity and immoral activities.



Non-Interest Capital Market Instruments for Mortgage Financing

1. SUKUK
2. I-REITS
3. I-Funds

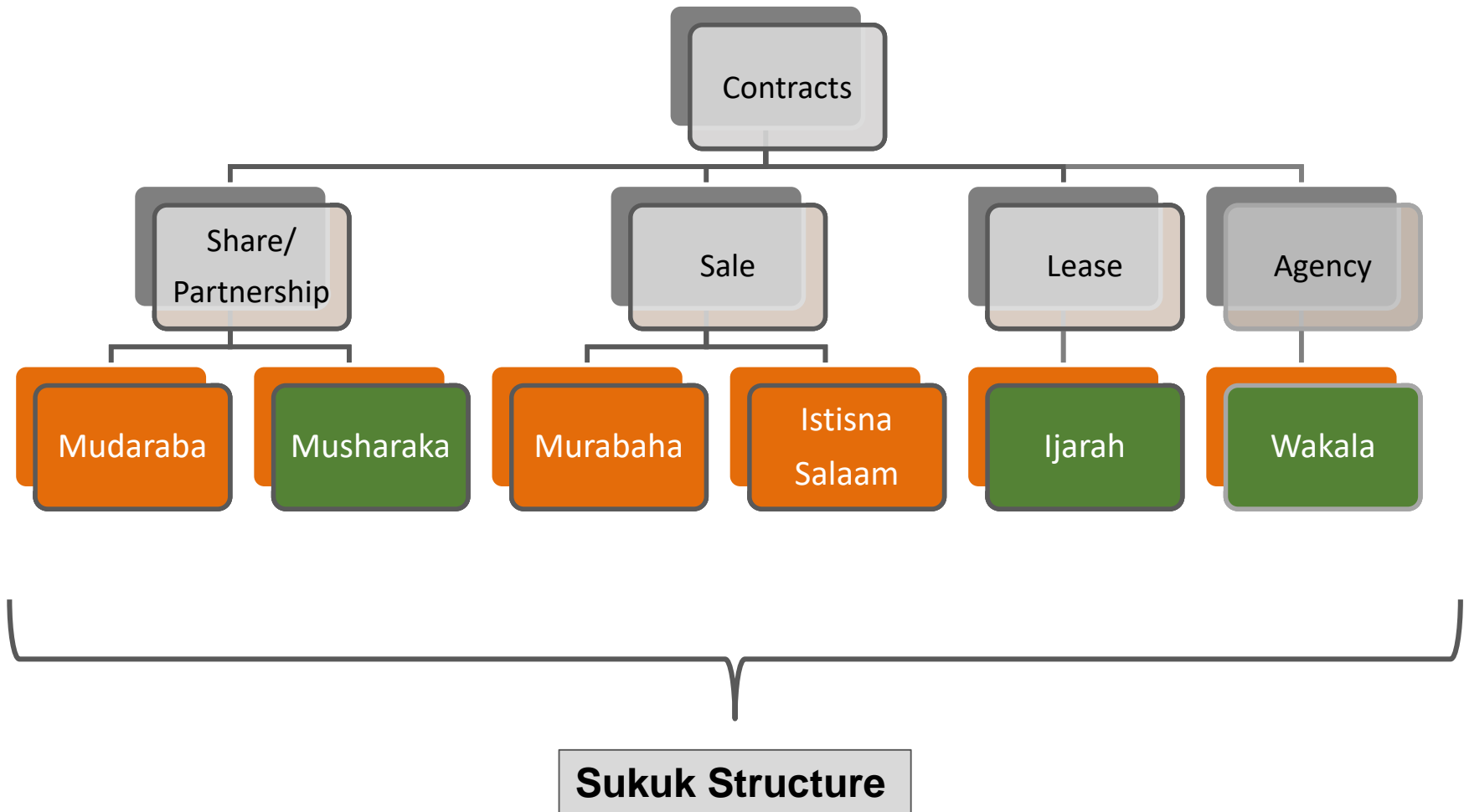
Non-Interest Capital Market Instruments for Mortgage Financing

1. **SUKUK**
2. I-REITS
3. I-Funds

SUKUK

- AAOIFI defined Sukuk as “Certificates of equal value representing ..., common title to shares and rights in tangible assets, usufructs and services, or equity of a given project or equity of a special investment activity”.
- The AAOIFI laid down 14 different types of Sukuk.
- The return provided to Sukuk holders by the Special Purpose Vehicle (“SPV”) comes in a form of profit from a sale, rental or a combination of both.
- Bankruptcy remoteness – SPV?
- Base on specific principles of non-interest financial contracts

SUKUK

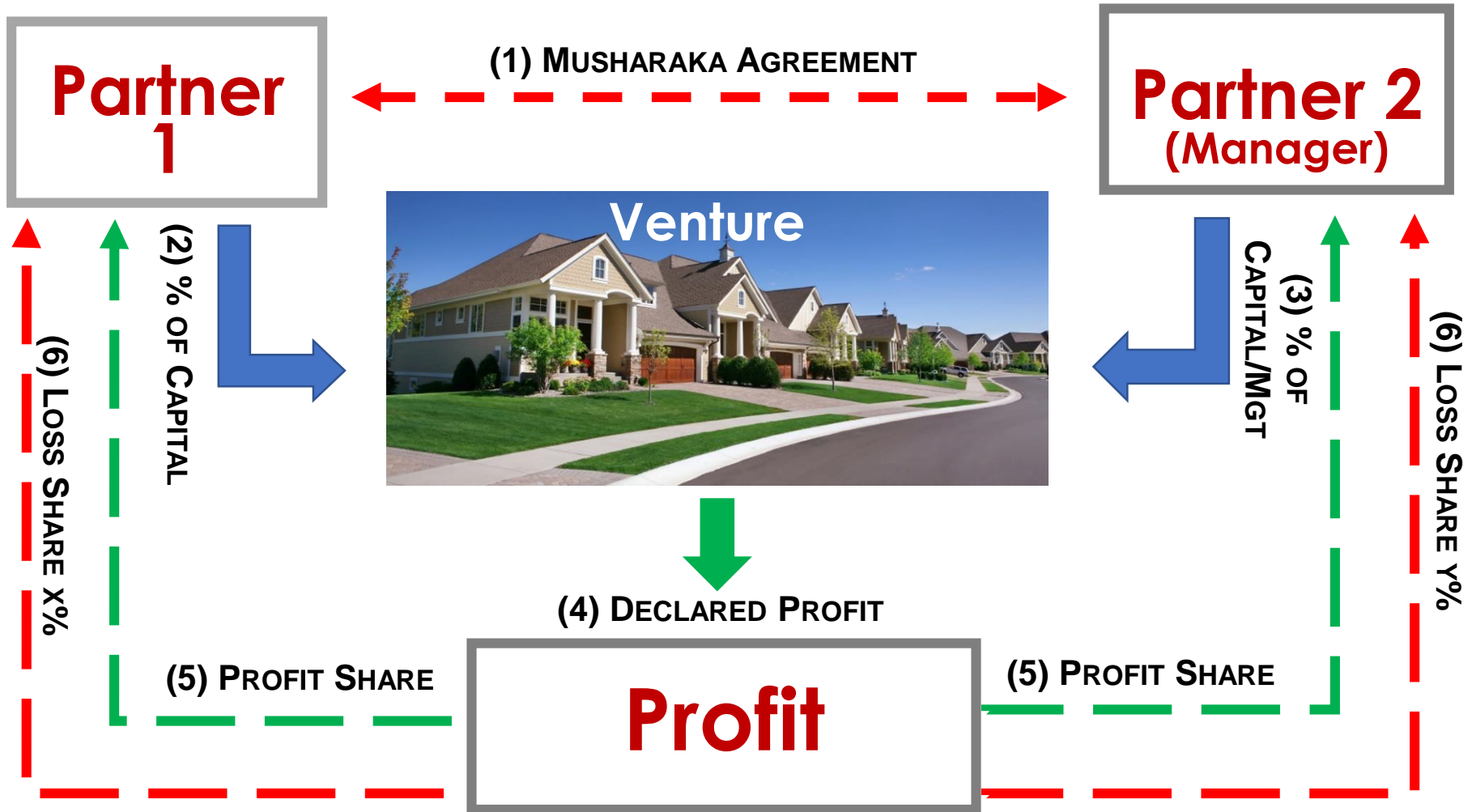


MUSHARAKAH CONTRACT

Profit and loss sharing Partnership (Musharakah): a relationship established under a contract by mutual consent of the parties for contributing capital, sharing of profits and losses in the business. Equity-based contract with no guarantee of capital and/or profit.

- Capital – Pre-agreed in cash or in kind
- Profit distribution - pre-agreed ratios,
- Loss distribution - proportionate to capital contributed
- Management - Pre-agreed On the basis of Wakalah
- Liquidation of the venture – Pre-agreed as going concern, diminishing Musharakah or open market sales at market price.
- Musharakah shares can be traded in the secondary market.

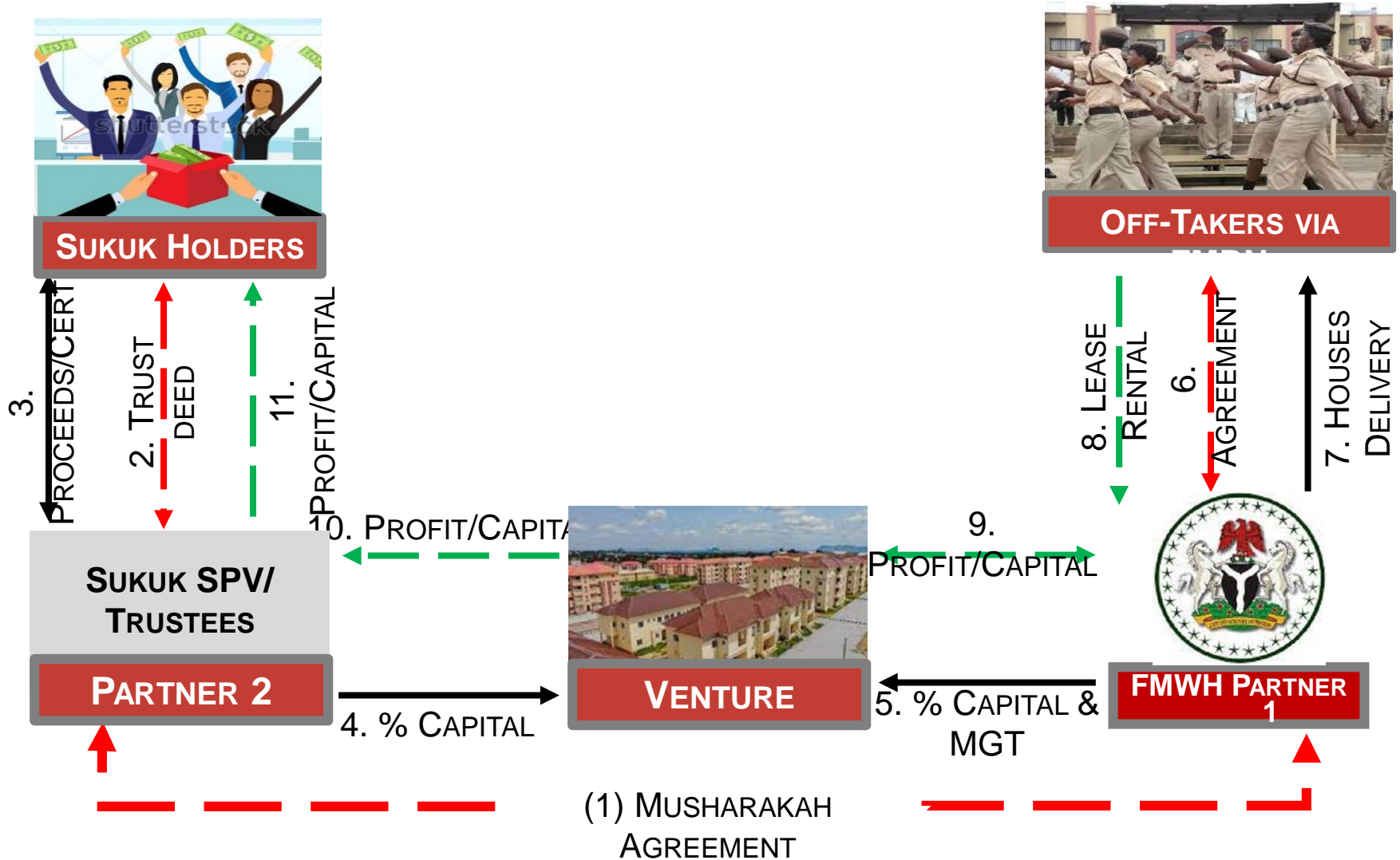
MUSHARAKAH CONTRACT



MUSHARAKAH SUKUK

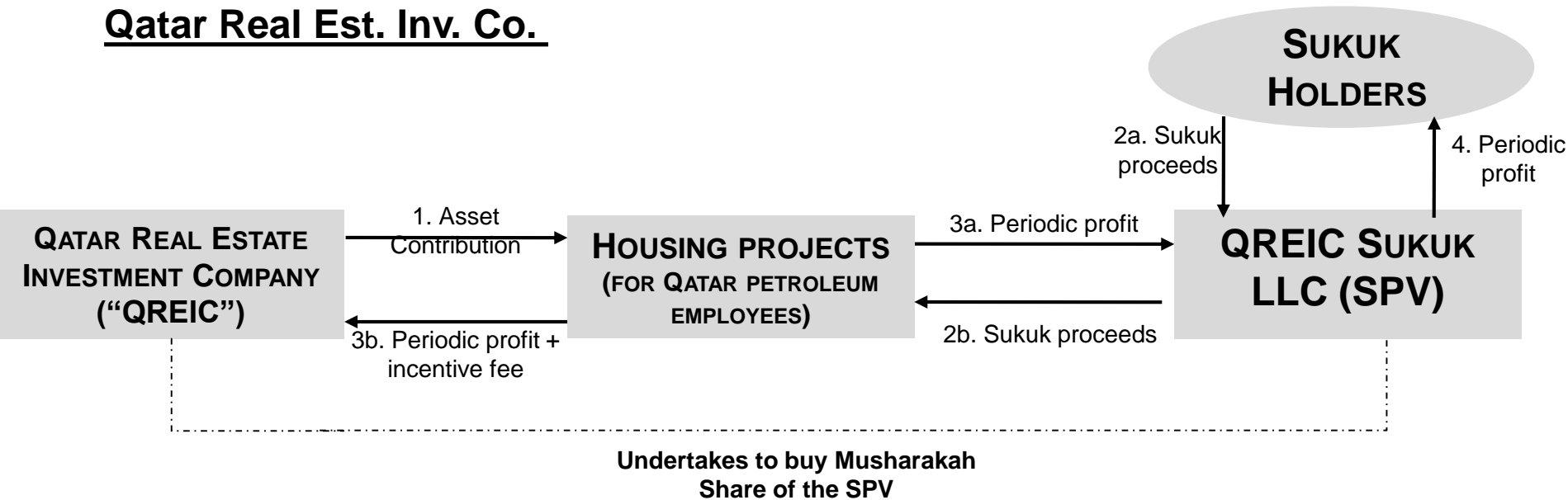
- Government (FGN or State); Government Agency (FMBN, FHA etc); Primary Mortgage Bank, Real Estate Developer or any Investment Company (acting as “Originator” and Musharakah Partner) is interested in raising fund through Sukuk to fund affordable housing scheme.
- The Originator is willing to provide land as capital contribution into the housing scheme.
- A Special Purpose Vehicle is incorporated to act as Issuer (and the other Musharakah Partner) of the Sukuk notes to fund the construction of the houses.
- Confirmed and reliable off-takers of the houses are identified as RSA holders/NHF contributors etc.
- Off-Take Guarantee to be provided by the “reputable” Mortgage Lender.
- The following Musharakah Sukuk structure can be adopted.

MUSHARAKAH SUKUK



MUSHARAKAH SUKUK IN PRACTICE

Qatar Real Est. Inv. Co.



Sukuk Al Musharakah -Term Sheet

| | |
|--------------------------|---|
| Issuer | QREIC Sukuk LLC, a special purpose company incorporated in the Qatar Financial Center (QFC). |
| Issue Size | \$270million |
| Principal Purpose | To meet the long-term housing needs of Government entities, mainly Qatar Petroleum (QP) and QP affiliates, and developing real estate projects within housing areas of the industrial belts in Qatar. |
| Listing | Luxembourg Stock Exchange |

IJARAH CONTRACT

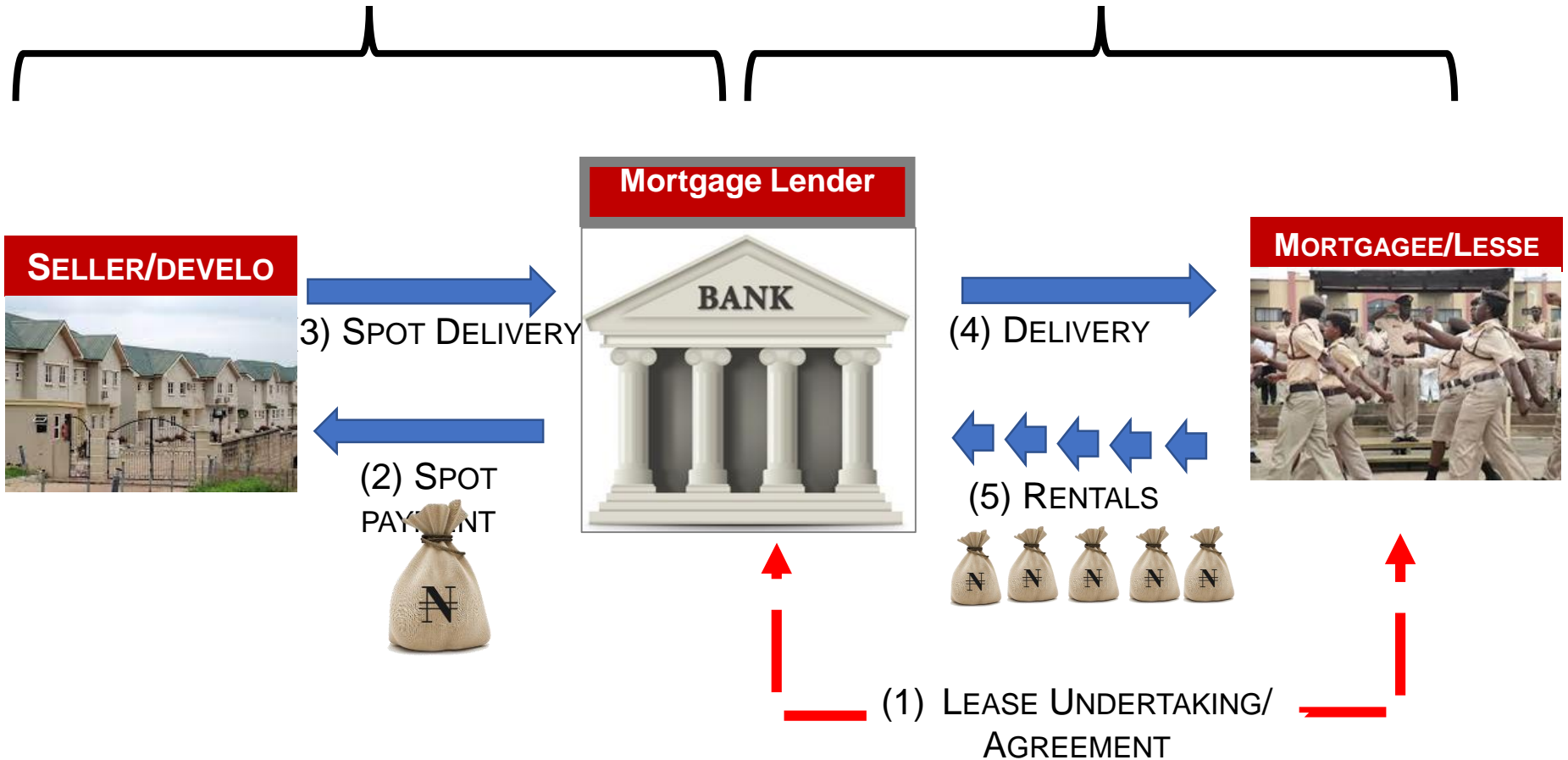
Operating Lease (Ijarah): transfer of the usufruct/benefit of a particular property or asset to another party in exchange for a pre-agreed rental for an agreed period.

- Transferring use of asset, not transferring ownership in exchange for Rent.
- Consumables cannot be leased out
- Lease is 'Period Specific'
- The Lessor may transfer the asset - the ownership to the Lessee at the end of the contract either:
 - ✓ Selling at a token or market price (Sale contract needed)
 - ✓ As a gift / donation (Deed of gift needed)
 - ✓ As a gift contingent upon the final rental payment
- Co-ownership of Lease Asset between the Lessee and Lessor is allowed. The rental amount to be proportionate to the Lessor's share of the Asset.

IJARAH CONTRACT

Spot Transaction

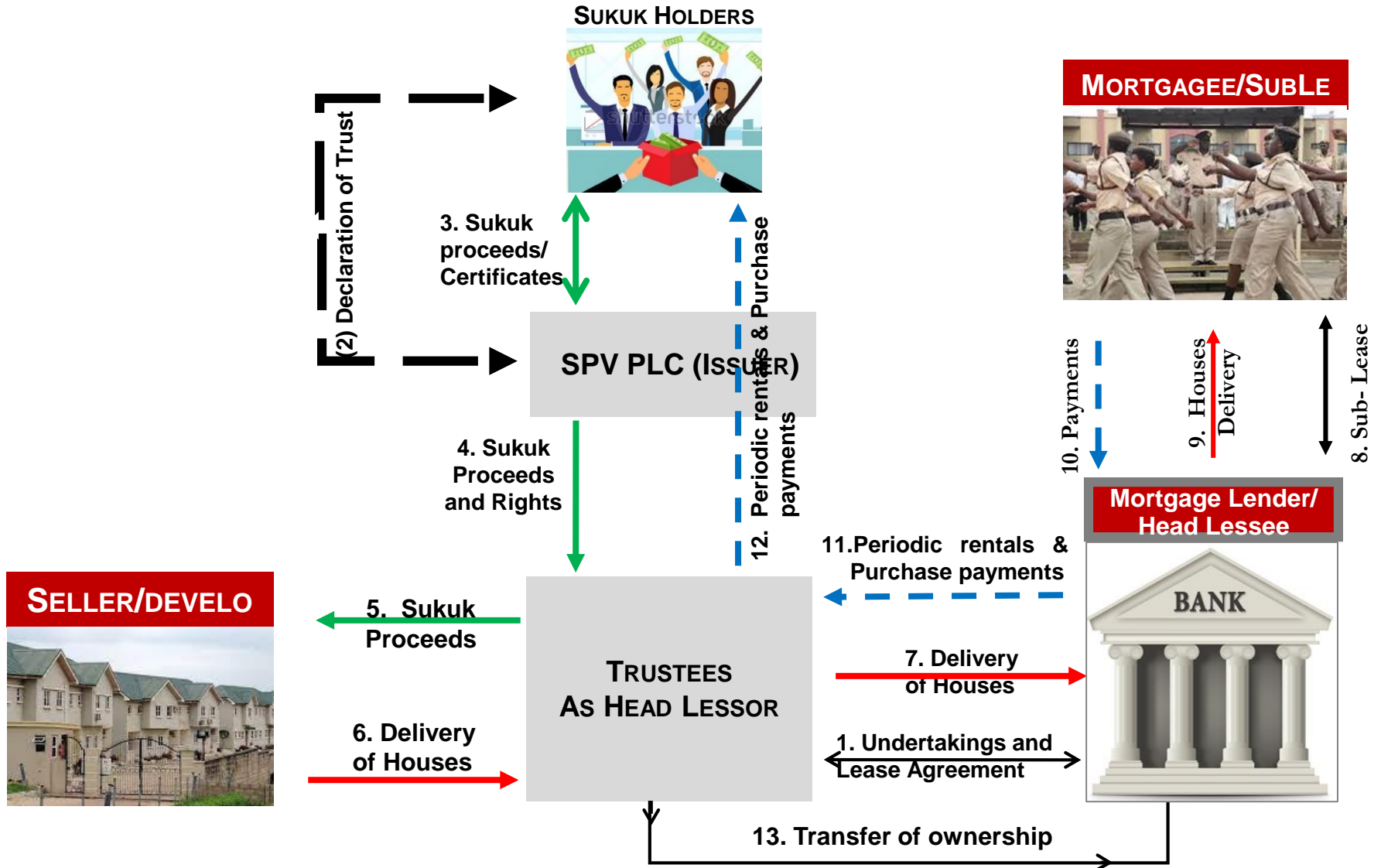
Lease Transaction



IJARAH SUKUK

- Government Agency (FMBN, FHA etc) or Primary Mortgage Bank or any Mortgage Lender (acting as “Originator” and Lessor) is interested in raising fund through Sukuk to fund 75% of the RSA Holders’ mortgage (or any identified and reliable Mortgagee).
- A Special Purpose Vehicle is incorporated to act as Issuer (and the other Head Lessor) of the Sukuk notes to fund the construction of the houses and head lease to the Originator.
- The Originator enters into sub-lease (forward lease contract) with reliable and capable RSA Holders as off-takers of the houses.
- The following Ijarah Sukuk structure can be adopted.

IJARAH SUKUK



WAKALAH CONTRACT

The Wakalah is an Agency contract in which the principal (Muwakkil) appoints an agent (Wakeel) to carry out a specific task on his/her/its behalf.

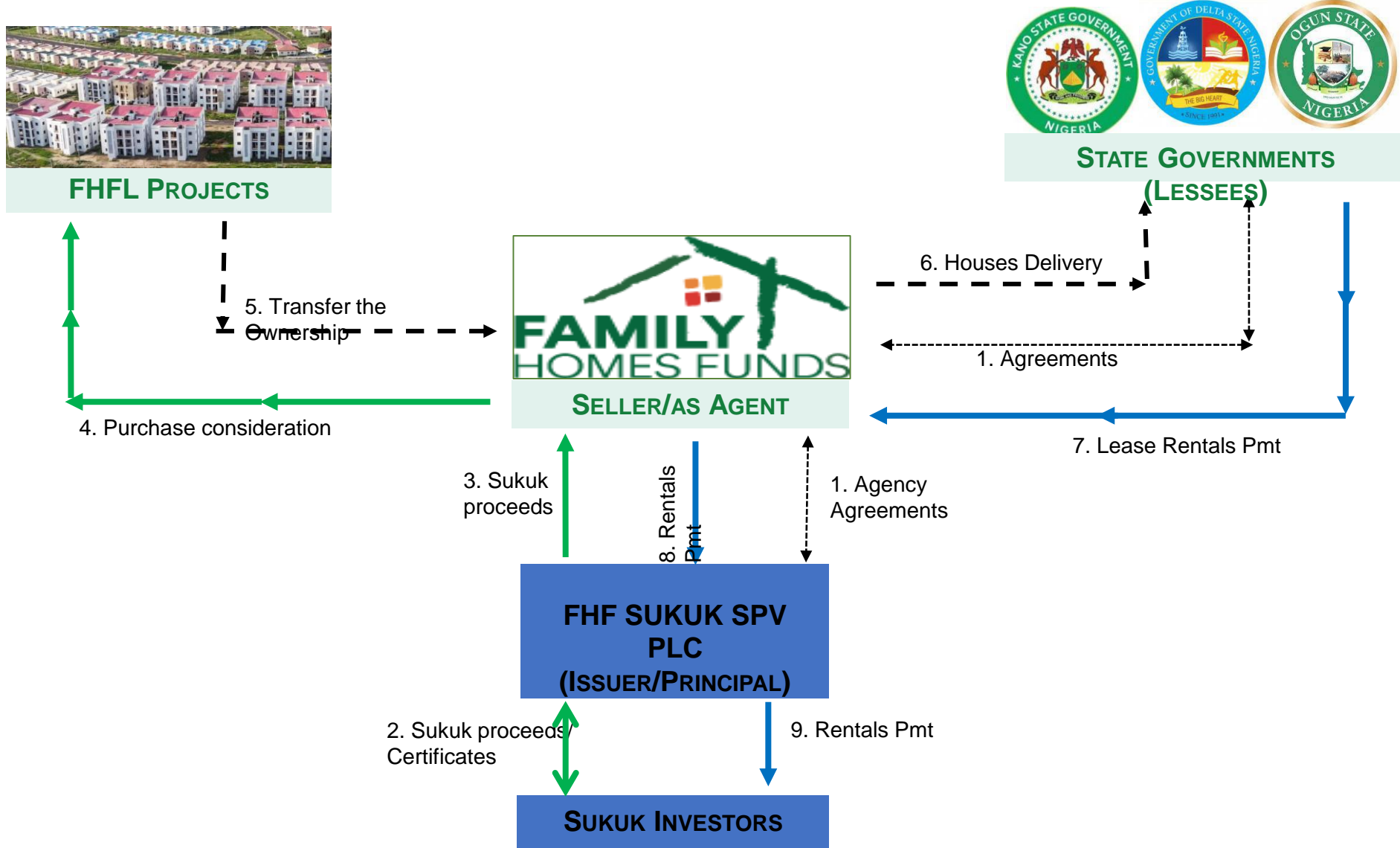
Remuneration – The agent may be remunerated.

Exercise of agent's duties –

- ✓ in good faith/reasonable care
- ✓ in accordance with the terms of the wakala agreement
- ✓ cannot entrust such duties to another without first obtaining the prior consent of the principal.
- ✓ An act exercised by the agent will be deemed to be carried out by the principal.

Guarantee by the Agent is not allow unless on Negligence or breach of contract.

WAKALAH SUKUK



WAKALAH CONTRACT

The FHFL Sukuk structure above has the following steps as identified in the diagram:

- 1) The contracts (Agency Agreements, Lease Agreements, Purchase undertaking, Trust Deed, etc) between respective parties are executed.
- 2) The SPV issues Sukuk investment certificates for subscription to the general public and in return receives proceeds. However, Corporate Trustees duly licensed by SEC shall be assigned to act on behalf of the SPV.
- 3) The Proceed is transferred to FHFL as Agent for purchase of Projects.
- 4) The FHFL pays the consideration of projects, pursuant to either outright sales contract or Istisna Contract (if the houses have to be constructed).
- 5) The Contractors (and FHFL) deliver the houses to the Agent (on behalf of SPV).
- 6) The FHFL (acting as Agent) delivers the houses on Lease to State Governments, Cooperatives, Mortgage Lenders.
- 7) The State Governments, Cooperatives or Mortgage Lenders pay Lease Rentals which is expected to covers Consideration for purchase of the houses and annual rental to the FHFL.
- 8) The FHFL remits the Lease Rentals to SPV via Corporate Trustee as Periodic Payment Amount bi-annually (or any other period stated in the offer documents).
- 9) The SPV via Corporate Trustee pays the Periodic Payment Amount to Sukuk Investors
- 10) At maturity of the Agency and Lease Contracts, the legal title of the houses are transferred to the State Government, Cooperatives or Mortgage Lenders as gift (or at a nominal price).

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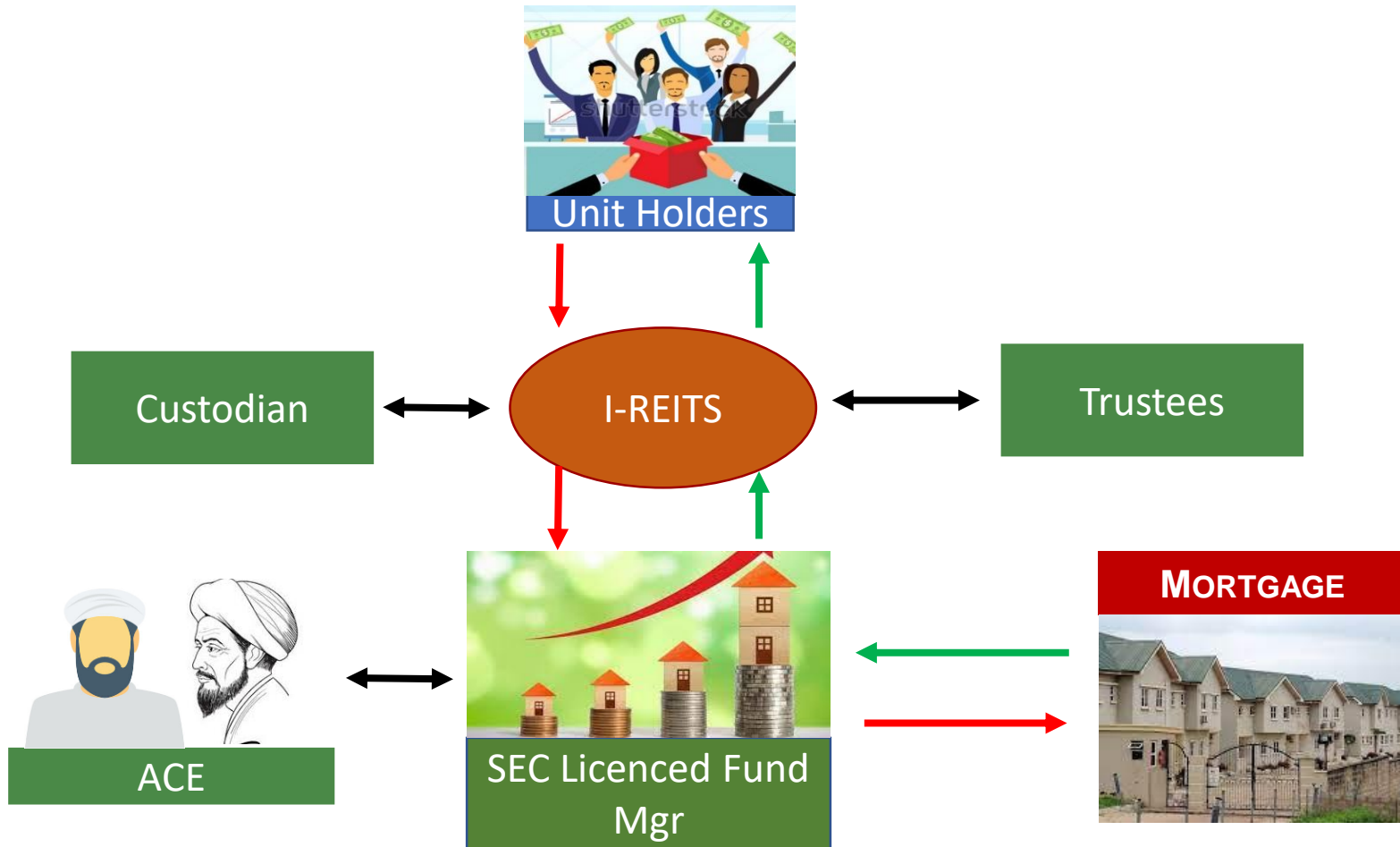
I-REITS

- Real Estate Investment Trusts (REITS) are Corporate or Trust CIS where funds are pooled together by a Fund Manager as a vehicle to invest in income generating properties for the benefit of unitholders.
- REITS can be listed or unlisted. Open-ended or closed-ended.
- There are 3-types of REITS, Equity, Mortgage and Hybrid REITS
- Tax incentives on dividend pay-out
- There are only 34 REITs in South Africa, the largest REIT market in Africa and 4 REITS in Nigeria with NAV about N45.8b.

I-REITS

- I-REITS are REITS that follows the principles of Shari'ah (investment; screening; purification etc)
- Relationship (contract) between the Manager and Investors:
 - ✓ Mudarabah or
 - ✓ Agency or
 - ✓ Musharakah
- Malaysia was the pioneer in the development of Islamic REITs guideline in November 2005
- The guideline was the first to be introduced globally and the market has shown positive growth ever since.
- Importance of REITS are Diversification; inflation protection, income, lower VaR, Investment by Manager, regulated by SEC

I-REITS STRUCTURE



Non-Interest Capital Market Instruments for Mortgage Financing

1. SUKUK
2. I-REITS
- 3. I-Funds**

I-Funds

- Islamic Funds are Mutual Funds/Unit Trust Funds structured in line with Islamic Finance Contracts.
- Funds take the form of equal participating shares/units, which represent the shareholders'/unitholders' share of the assets and entitlement to profits or losses.
- Relationship (contract) between the Manager and Investors:
 - ✓ Mudaraba or
 - ✓ Agency or
 - ✓ Musharakah
- Types of I-Funds that can invest in real estate may include hybrid fund, Assets financing funds' Sukuk fund for real estate and Fund of I-REITs etc.

Thank you

Q & A



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