

Family Homes Funds Ltd (FHFL) Case Study

Chapter One

In recent decades, Nigeria's rapid rates of growth in urbanisation and population have brought with it a worsening housing crisis. Statistics vary, but a recent estimate from the Central Bank of Nigeria's *Economic and Financial Review* (December 2019) indicated that the housing deficit facing the country stands at 17 million – up from 14 million in 2010, and 7 million in 1991. Urgent action is required.

This study focuses on **Family Homes Funds Ltd (FHFL)**, which has been one of the major interventions to tackle Nigeria's housing crisis in recent years, and the key role played in the organisation's establishment by **Altair Consultancy & Advisory Services Ltd (Altair)**, a UK-based firm specialising in affordable housing. Focus is paid to the organisation's flagship **Help to Own** (HTO) subsidised mortgage product. Ultimately, the study aims to explain how FHFL has been able to commission and deliver thousands of homes within a short period amidst challenging economic conditions – in short, why this organisation has succeeded where so many others have failed.

This chapter provides more detail regarding the Nigerian housing crisis, before introducing FHFL. Chapter Two looks backward, examining the involvement of Altair in the crucial early years of the FHFL. Chapter Three examines the FHFL's HTO product in more detail. The concluding Chapter Four looks forward, to the challenges faced by the FHFL in the future. It also examines how lessons learned during the establishment of FHFL can be applied to other countries.

The Nigerian Housing Crisis

Nigeria, where FHFL operates, has a population of about 216.7 million people, the largest population and the largest economy in Africa with a GDP of 432.3 billion USD. Population growth has been driven by a high fertility rate and other socioeconomic factors. The economy's rapid growth since the 1960s has been primarily driven by oil, accounting for 9.25% of GDP in Q1 2021.

Meanwhile, rural-urban migration is increasing rapidly. In 2020, more than half (51.96%) of the Nigerian population were living in urban areas and cities, with an estimated urbanisation rate of 4.3% per annum.

These factors – rapid urbanisation and economic growth, as well as population, increases estimated at 2.6% per annum – are putting pressure on the housing sector, with mounting demand for housing and investment in infrastructure.

Nigeria's growing gap between housing demand and housing supply is experienced most acutely in Nigeria's largest urban areas, including Lagos, Port Harcourt, and Abuja. To resolve the housing deficit, it is estimated, would require between N125 – N180 trillion (approx. USD \$293 – \$422 billion) in investment.

Yet the housing sector has consistently failed to grow or to attract investment. There is a distinct lack of effective large-scale property developers. Universally high costs – whether of land, building materials, or finance – serve to limit development activity and deter new players from entering the market.

Meanwhile, effective demand is constrained by low household income, with approximately 60% of Nigerians living on less than \$1.25 a day, i.e., the threshold for absolute poverty. Affordable, accessible housing finance has been close to non-existent: the size of the mortgage sector is extremely small and severely underfunded. The mortgage-to-GDP ratio is approximately 0.6% and mortgages account for less than 1% of total banking assets. Mortgages in Nigeria operate on short terms, ranging from 5-15 years, and require the borrower to make a large deposit, typically ranging from 20% to 30%. As a result, Nigeria's average mortgage interest rate is close to 9x times that of the UK and the US.

These factors, in combination with rising house prices exacerbated by the housing supply shortage, make homeownership unaffordable for most families. Barely over a third (35.7%) of Nigerians residing in urban areas own their own homes. Instead, many are forced into the rental market, which in Nigeria tends to deliver poor quality, insecure housing, while costing a high percentage of household income, keeping them trapped in this sector indefinitely.

What is FHFL for?

FHFL is a financial institution which was conceived as a direct response to the issues outlined above. It defines its own purpose as: "to use housing as a means to improve the living standards of Nigerians on low income, by building quality homes that Nigerians can afford, proffering home ownership financing solutions and creating jobs through the process."

In order to create lasting positive impacts for beneficiaries, FHFL considers five core areas when designing their programmes, which are:

1. **sustainable impact** (keeping the interests of the people and the country at the core of their projects),
2. **financially viable** (strong financial controls to ensure success),
3. **well-governed** (having a clear governance structure),
4. **people** (celebrating diversity within the team), and
5. **relationships** (working collaboratively with partner organisations to ensure success).

FHFL operates several programmes, namely the **Affordable Housing Fund**, the **Rental Housing Fund**, the **Help-to-Own** Scheme and the **Land & Infrastructure Development Fund**. All the schemes are designed to improve access to decent quality, affordable housing (by means of either rental or ownership) for low-income Nigerians. FHFL has committed to ambitious targets of housing 500,000 families by 2024 and, eventually, creating 1,500,000 jobs in the process.

FHFL in Nigeria

FHFL occupies a unique place in Nigeria's political and economic landscape. It is registered as a private limited company and defines itself as an "innovative private-sector-driven financing solution to Nigeria's housing challenges", albeit one which was set up, in 2017, with joint funding from the Federal Government of Nigeria and the Nigerian Sovereign Investment Fund – with the former's Federal Ministry of Finance owning 51% of shares and the latter's Nigeria Sovereign Investment Authority holds the remaining 49%. Though not a government agency, FHFL has the mandate to deliver the government's National Social Housing Programme.

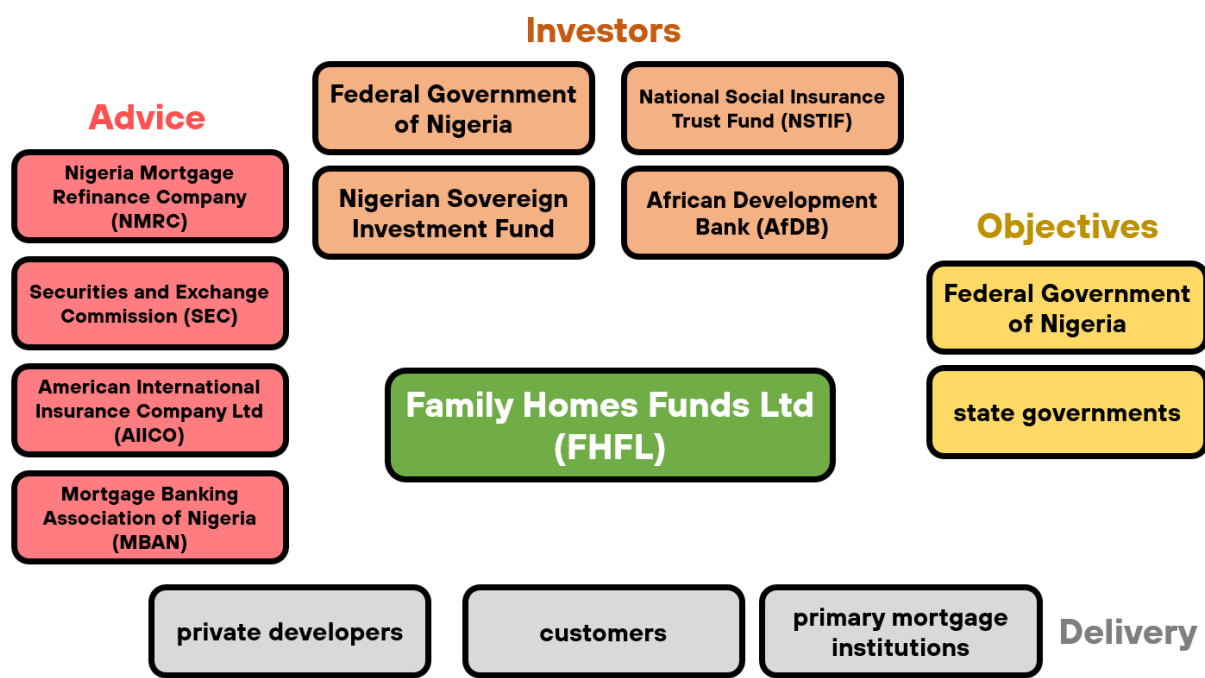
The logic behind the hybrid nature of FHFL's constitution is ultimately to combine the social purpose and national ambition of the state with the efficiency and competitiveness of the private sector.

Indeed, FHFL relies on a network of close relationships with a variety of actors which span the private and public sectors, operating at local, national, and international levels, such as:

- initial investment (equity) from the Federal Government of Nigeria, the Nigerian Sovereign Investment Fund, the National Social Insurance Trust Fund (NSITF), and the African Development Bank (AfDB)
- discussion of housing targets with the Federal and state governments
- regular meetings with the Mortgage Banking Association of Nigeria (MBAN), to provide ongoing review and assistance regarding FHFL's mortgage agreements with primary lending partners
- advice and focus group discussions from stakeholders such as the Nigeria Mortgage Refinance Company (NMRC), American International Insurance Company Limited (AIICO) and the Securities and Exchange Commission (SEC), regarding the securitisation of funds
- procurement of land and property with private developers
- operational partnerships with primary mortgage institutions, to deliver FHFL's core product range
- research/profiling of target customers, plus seeking their input in product design before the launch

These relationships are set out in Figure 1.1, below. It is hoped that FHFL's network will reduce the risk of coordination problems and ensure that its interventions in the housing market will be both socially-minded and financially viable in the long term.

Figure 1.1: FHFL's relationship with major



Chapter Two

Altair Consultancy & Advisory Services Limited (Altair) was commissioned by the nascent **Family Homes Fund Limited (FHFL)** in October 2017 to support its development as an effective social housing fund.

Over the course of two years, Altair led the following tasks:

- setting out FHFL's core business objectives
- providing recommendations on options to promote affordable housing;
- assisting in financial and business planning, plus governance and staffing structure design;
- designing and launching the flagship Help to Own mortgage product

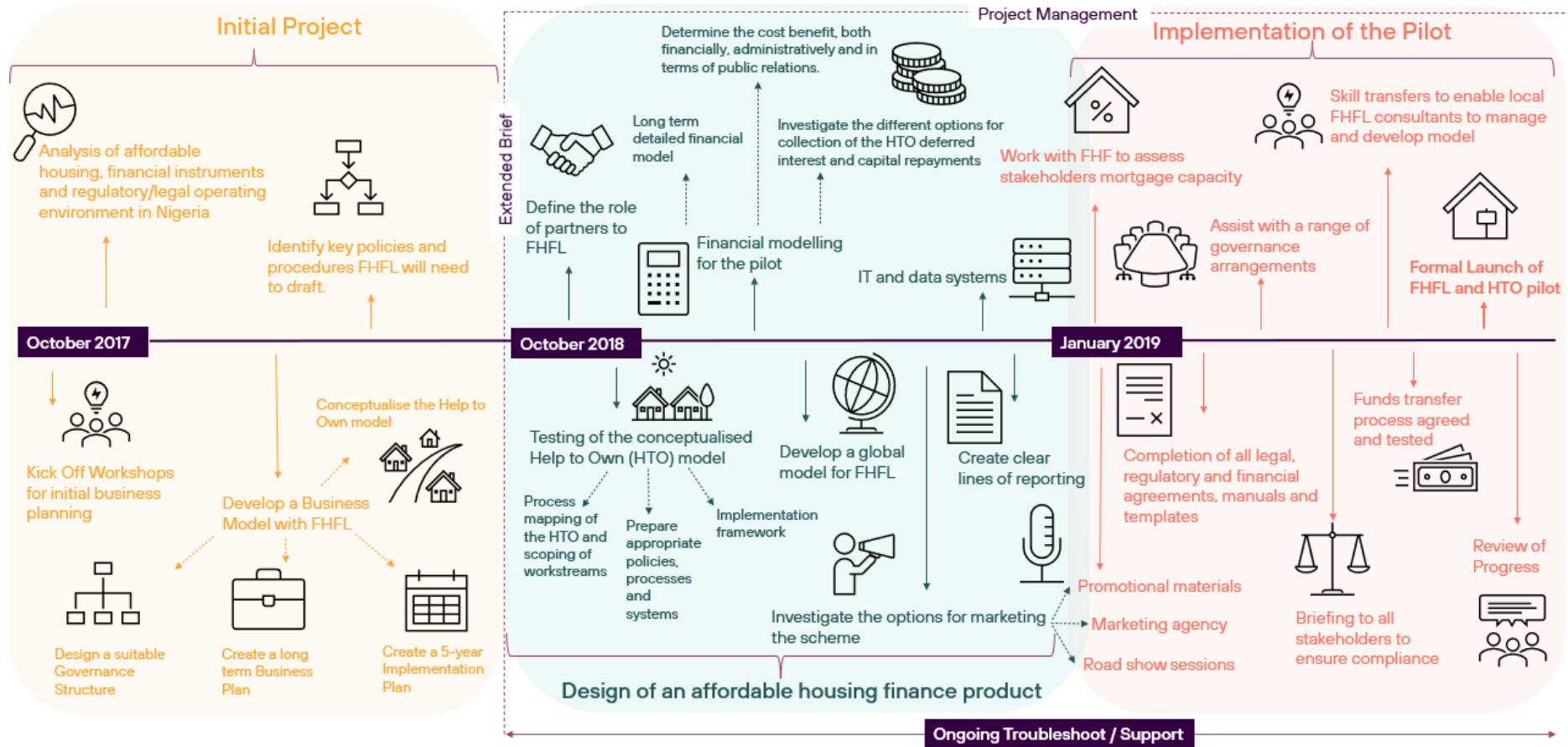
FHFL and Altair jointly collaborated over the course of three years, through multiple extended project briefs to develop FHFL. Altair's involvement with FHFL can be categorised into three main phases of work;

1. initial Nigeria housing market ecosystem research, development of strategy and business planning
2. design of affordable housing finance assistance product for low-income households
3. implementing the pilot scheme

Figure 2.1 overleaf visually demonstrates the implementation timeline of the key tasks that Altair undertook in the development of the FHFL affordable housing social fund and its Help to Own (HTO) product.

[continued below]

Figure 2.1: Project Timeline



1 – Initial Project

When Altair was commissioned to provide support, in 2017, the initial project scope was for Altair to assist FHFL with its initial business planning process and help the organisation establish itself. In doing so, Altair played a significant part in defining how FHFL would fulfil its mandate to stimulate an increase in the supply of affordable housing in Nigeria and increase homeownership rates for low and middle-income households.

Altair set up several kick-off workshops for the project to supplement its initial desktop analysis and provide an early opportunity for collaboration with FHFL executives and other key stakeholders.

The consultants then conducted an analysis of Nigeria’s housing market, utilising data on housing stock, construction industry capabilities, and existing financial markets. Its consultants also examined the legal, regulatory and tax environment. This research was designed to inform FHFL’s assessment of the potential scope for new housing finance products and their likely viability. It also provided FHFL with a fuller understanding of the requirements surrounding securitised affordable housing bonds and public sector ‘wraps’ for third-party debt finance.

Analysis of Nigeria’s housing market was complemented by comparative analysis of other countries, including practical examples of products which assist in making homeownership more accessible, such as deposit savings schemes, help-to-buy, low-start mortgages and rent-to-buy models, as well as financial instruments such as asset-backed-index-linked bonds and unitised savings schemes.

This research was summarised in a series of reports, which provided the FHFL’s leadership with a solid basis of data upon which to develop their organisational strategy. Altair also outlined a critical path to be followed for the development of FHFL’s governance institutions, funding sources and product offering, as well as a detailed estimate of the resources that would be required.

Altair’s work enabled the FHFL to define its business model and to set out a five-year implementation plan, including a governance structure, key policies and procedures, compliance requirements, and a model for its Help to Own (HTO) flagship product.

2 – Extended Brief – Designing an affordable housing product

In October 2018, Altair was commissioned to aid FHFL in the execution of the five-year implementation plan and assist in the design and development of the flagship Help to Own (HTO) pilot scheme. This extended brief involved the following tasks:

1. “Process mapping” all the key activities which would be required as part of the implementation plan. The process maps created included details of resource requirements, timescales, and milestones tied to the accomplishment of objectives.
2. Producing documentation for FHFL’s key policies and procedures, developed at the end of phase one.
3. Selecting delivery partners, including retail banks to provide mortgages, and legal firms to advise on purchases and provide notarised documentation.
4. Research and development (R&D) of the HTO product, including:

- assessing the capacity of selected delivery partners
 - financial modelling, including for both the initial pilot scheme and the medium and long term
 - comparing different approaches to the collection of deferred interest and capital repayment
5. Laying the groundwork for the HTO pilot scheme, including:
- appointing local marketing consultants to develop a recognisable brand for FHFL and its products, and to devise a communications strategy targeted at mortgage providers, developers and purchasers
 - appointing local IT consultants to develop data management systems
 - setting up Key Performance Indicators (KPIs) and other mechanisms to monitor progress
 - project management/activity coordination

3 - Implementation of the Pilot

Phase three began in January 2019, when Altair's contract was extended a second time. By this point, FHFL had developed its core organisational structures and recruited permanent staff. Part of Altair's role involved training these staff members, ensuring that they were equipped to deliver the pilot scheme. Altair also continued to assist FHFL with the further development of its governance structure, including devising new arrangements for internal audit and data management.

Preparations for the HTO pilot built on what had come before. Altair provided FHFL leadership and staff with briefings regarding the legal and regulatory compliance requirements. They undertook detailed performance reviews of the selected delivery partners, to confirm that they would be capable of delivering the pilot. These partners were also subject to a comprehensive data audit, to ensure that their IT systems were compliant with FHFL requirements. Joint work on the communications strategy continued.

Altair also conducted detailed modelling in several key areas, such as financial modelling (including viability appraisal models), client assessment models, and business planning in the short, medium, and long term. Altair also provided training to FHFL staff and advisors in both understanding these models and developing future models.

This extensive preparatory work ensured that the pilot scheme would be executed successfully and that FHFL would be able to thrive and grow after its completion.

Altair remained available for retained support to FHFL throughout the pilot program.

Chapter Three

Many Nigerian households on low incomes are unable to purchase a home. Mortgages available on the open market remain out of reach, due to high initial deposit requirements, expensive legal fees for land title registration and occupation certification (these fees were estimated in some states to cost as much as 25% of the house price), strict underwriting rules regarding proof and regularity of income, and high-interest rates, regularly exceeding 16% per year. Indeed, an estimate from 2018 indicated that only 7,000 new mortgages were issued across the entire country in a whole year.

At the time of FHFL's creation, in the late 2010s, there were very few mortgage support programmes available to Nigerian households. Those that did exist were either limited in scope (the Federal Mortgage Bank of Nigeria's [FMBN] scheme relied on the National Housing Fund [NHF], which was severely under-resourced until major reforms in 2017), overly restrictive in terms of eligibility (the Federal Integrated Staff Housing [FISH] Programme is only open to public servants), or beset with operational inefficiencies (the NHF Mortgage Loan process, run by the FMBN, took 148 days from start to finish).

Furthermore, for those subsidised mortgages which were disbursed, rates of non-performance were unacceptably high (in 2017, the FMBN had a non-performing loan (NPL) portfolio of N122bn [USD \$286m]), resulting in the abandonment of many housing projects partway through, and raising serious doubts about the financial viability of mortgage support programmes in general.

Given the shortfall and shortcomings in mortgage provision, low-income Nigerian families have often been forced to remain in the private rented sector, which can be expensive, insecure, and poor-quality.

In this context, FHFL's plans for a Help to Own (originally Help to Buy (HTB), later renamed to Help to Own [HTO]) mortgage scheme seem particularly ambitious. Once up and running, the HTB programme is intended to benefit 100,000 households per year. These households will belong to low- to middle-income brackets.

Indeed, the HTB product became even more ambitious as it was developed (see previous section for more details on the development process). Originally, the product was intended to be targeted at households earning between N600k to N1.2m per annum; now, it is open to anyone who earns between N500k and N1.7m. At first, there was an upper age limit of 35 years old for the buyer; now, the final product is open to anyone aged 18 or over. The purchased home was originally subject to a price cap of N7.5m; but, partly due to vast disparities between house prices in the major cities of Abuja, Port Harcourt, and Lagos, and the rest of the country, this cap no longer applies. Lastly, it was initially assumed that the buyer would have to pay a deposit covering 20% of the house price; this has been reduced to 10%.

Figure 3.1: comparison of eligibility requirements for HTO loan, prototype vs final product

	Prototype (2018)	Final Product (2022)
Income Cap	N600k to N1.2m	N500k and N1.7m
Age Limit	18-35 years old	18+ years old
Price Cap of Home	N7.5m	N/A
Initial Deposit	20%	10%
Initial Interest Rate (year 6)	6.5%	3%

While the details shifted over time, the basic principles underlying the HTO product have remained consistent. The product is two loans grouped together: a conventional mortgage provided by an existing commercial lender (currently covering 50% of the house purchase price), and a subsidised loan provided by FHFL (currently covering 40% of the house price) and managed by the commercial lender. Consumers could access this product by paying a deposit (covering the remaining 10% of the house price) and meeting the eligibility criteria described in the previous paragraph.

The product gives borrowers an extended period, of 20 years, to repay the debt. On the FHFL portion of the product, the first 5 of these 20 years is a “grace period”, during which no repayment is required, and no interest is charged; during the remaining 15 years, the interest rate on the loan would start low – originally forecast to be 6.5%, now starting even lower at 3% – before rising incrementally for each repayment, on the assumption that the borrower’s income will have stabilised and begun to grow over time, broadly in line with inflation, to a maximum of 15% in the final year of repayment. While the commercial portion of the HTO product is lent at a standard market rate, the favourable terms of the FHFL portion mean that the product offers the borrower a lower interest rate overall (estimated at 11%-13%), compared to what they would find for a purely market-rate loan (estimated at 16%).

Above all, the product was to be accessible to low- and middle-income first-time buyers. FHFL’s HTO product is not saddled with the overly restrictive income or employment requirements of the country’s existing subsidised mortgages, such as FISH. This means that FHFL’s product has the potential to unleash far greater levels of pent-up demand

Accessibility does not just mean affordability – though this is central, as indicated by the features outlined above – but it also encompasses the way in which the product is marketed and explained to consumers. Figure 3.2 is an excellent example of FHFL’s strengths in communicating complex financial products to a mass audience, via its website at <https://fhfl.com.ng/help-to-own/>.

Figure 3.2: the HTO mortgage, as explained on the FHFL website

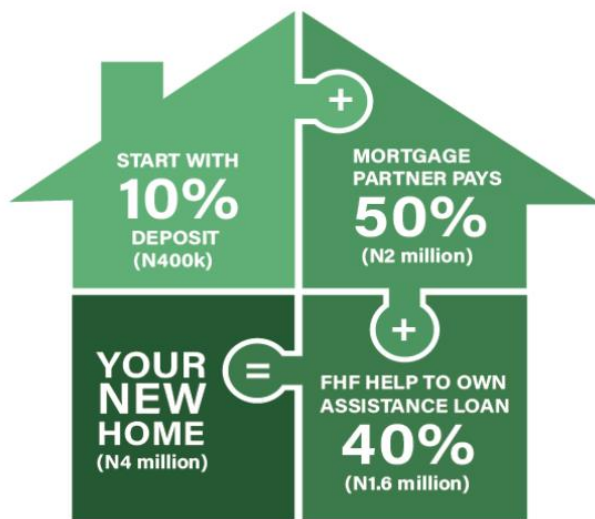
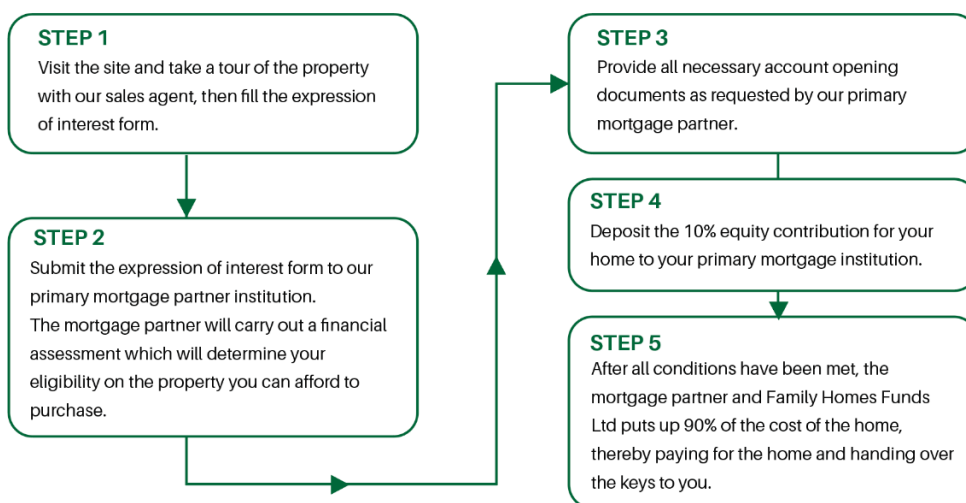


Figure 3.3, meanwhile, explains the application process, from the initial viewing of the property to moving in. Note that the primary mortgage partner undertakes most of the “heavy lifting” in terms of engaging with customers, underwriting, reviewing documents, and processing the mortgage deposit. Then, throughout the lifespan of the loan, the primary partner takes responsibility for collecting repayments from the borrower. This arrangement reduces the administrative burden on FHFL, allowing it to focus on its core tasks of sourcing suitable properties, monitoring the quality of construction, ensuring that land titling and other compliance requirements have been met and, of course, providing the subsidised portion of the loan. The risk of scope creep for the new organisation is thus reduced, while efficiently leveraging the expertise of existing mortgage providers.

Figure 3.3: the application process, as explained on the FHFL website



The easy-to-use website formed the centrepiece of a broader marketing strategy. Altair and a team of local consultants designed a comprehensive “communication tool kit” for FHFL, which, in addition to the website, also included:

- establishing a social media presence on Twitter and Facebook
- running a series of in-person “road shows”, designed to enhance outreach in communities with lower levels of internet usage
- distributing posters and leaflets
- publishing press releases

As an affordable and easy-to-understand financial product, HTO has clear benefits for its target consumer base: principally, a simple, realistic route towards homeownership, and all the economic and social security which this provides. Compared to other mortgage subsidy schemes in Nigeria, the accessibility of HTO to a broader demographic means that it has greater potential to unleash a substantial amount of pent-up demand, providing a solid basis for a scaled-up, more financially viable mortgage market.



The HTO product was formally launched by the FHFL in January 2022. This launch phase was financed by the African Development Bank (AfDB), which has committed to providing up to USD \$ 60 million to the Home Loan Assistance Program and supported by the Federal Ministry of Finance, Budget and National Planning. The initial target is to provide 3,750 HTO mortgages, benefitting an estimated 18,750 individuals, as well as directly creating 9,375 jobs.


The CEO and MD of FHFL, Femi Adewole, described the HTO product launch as a “big opportunity to execute a programme that will increase the volume and tenor of mortgage loans available in the market, deepen our housing finance system, improve access to decent housing and homeownership for people on modest incomes; significantly improving their quality of life.”


Chapter Four

This chapter aims to reflect on the outcomes to date, before examining the lessons which can be learnt from FHFL’s experience. It concludes with a look at the opportunities and threats which face FHFL in the short to medium term.

The FHFL project had four key success measures. By each of these standards, the organisation appears to be performing extremely well:

	Success Measure	Performance
	1. <i>Robust and financially sustainable.</i>	<p>Indications in this area are all extremely positive. In August 2022, FHFL’s credit rating was upgraded to “A”, while at the most recent Annual General Meeting, in October 2022, the following yearly financial results were reported:</p> <ul style="list-style-type: none"> • Profit before tax was N2.72bn (USD \$6.19m), or 334% higher than in 2020 • Revenue was N4.84bn (USD \$11m), or 98% higher than in 2020. • Total assets grew by 40% compared to the previous year, now valuing N93.4bn (USD \$212.7m). • Non-performing loans (NPLs) stood at 0% at the end of 2021. <p>According to the recently retired head of FHFL, Femi Adewole, the organisation is now on track to achieve full financial independence in 2023.</p>
	2. <i>Overcome the critical challenges and issues prevalent in Nigeria’s housing market including, but not limited to limited supply of mortgage options, limited tenure types, and political pressure to deliver homes quickly.</i>	<p>As noted in the previous chapter, the HTO loan was formally launched in January 2022, providing a viable path to homeownership for thousands of middle-income Nigerians.</p> <p>While this first major initiative was focused on home ownership, FHFL is now expanding into other tenure types. Its Rental Housing Fund will be used to finance the development of student housing and affordable rental housing, with an option to buy after a set period into the lease.</p> <p>From the beginning, FHFL has responded positively to the intense political pressure to</p>

		<p>deliver homes quickly. Its first tranche of development has delivered 2,304 homes, now known as the FHFL Legacy Estates. Of these, 2,133 have already been sold.</p> <p>By its most recent measure (October 2022), FHFL has now provided financing for a total of 15,792 homes. It estimates that its activities have provided work, directly or indirectly, for more than 83,000 people.</p>
	<p>3. <i>Flexible and pragmatic in response to the uncertainties of the political, economic and social environment in which it operates.</i></p>	<p>Nigeria was not spared from the global coronavirus pandemic, which forced governments to enact lockdowns which, in turn, suffocated economic activity. While this appears to have caused some understandable delays with, for example, the formal launch of the HTO product, it remains impressive that FHFL has remained committed to its core mission, and has, for example, maintained its target to finance the development of an additional 20,000 homes by the end of 2024.</p> <p>Over the course of 2022, in the aftermath of the pandemic, inflation has continued to climb, reaching a 17-year high of 20.77%. It remains to be seen what impact this will have on FHFL's performance, although it should be noted the organisation already has some experience in dealing with this challenge: when FHFL was established, prices of construction materials and other inputs into housing construction were already high and rising.</p> <p>The political environment for FHFL has remained positive, with the federal government maintaining its commitment to tackling the housing crisis. While this means that FHFL has not yet been challenged by a dramatic shift in political priorities, it should also be noted that this is no accident. As a hybrid public-private institution, FHFL works closely with the authorities to ensure that its goals are aligned.</p>

	<p>4. <i>Realistic in terms of what is achievable for the project.</i></p>	<p>FHFL’s targets are ambitious: It remains committed to its goal of financing the construction of 20,000 additional homes by the end of 2024. Its performance to date in this area, having already funded more than 15,000 homes, suggests that this is achievable.</p> <p>Its other goal, to create 1,500,000 jobs by an undetermined date, however, appears to be somewhat further out of reach. FHFL claims that its activities have provided employment for more than 83,000 people. Of those, a small number (less than 200) are permanent employees of FHFL; nearly all this employment has been generated “indirectly” via increases in activity at mortgage institutions, construction firms, and other types of company involved in the housing sector. “Indirect” gains in employment are notoriously difficult to measure, but even if we could demonstrate that the 83,000 figure is accurate, this remains far below the target of 1,500,000 jobs, at least in the short- to medium term.</p>
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Lessons learned

The challenges evident in Nigeria’s housing market are not unique – many countries across the world are experiencing housing supply difficulties against a backdrop of rapid population growth and high rates of rural-to-urban migration which, alongside other factors, has created a huge deficit of affordable housing. The thinking behind FHFL can therefore be taken forward and applied to other countries experiencing similar issues.

Others wishing to follow in FHFL’s footsteps should pay particular attention to the following areas:

Local conditions

It is important, to begin with, the proviso that FHFL should not be transposed into different countries without a careful, detailed analysis of the prevailing market conditions in each new location. FHFL was *modelled on*, rather than crudely *copied from*, its sources of inspiration.

International benchmarking

Furthermore, we recommend that FHFL is not considered in isolation. New organisations wishing to learn from its example should also examine the experiences of housing institutions in other countries. When FHFL was being developed in the late 2010s, external consultants from Altair undertook rigorous benchmarking of comparable housing initiatives in the UK and other markets.

International expertise

Involving internationally recognised external advisors in business planning and project delivery can provide a new organisation with insight into global best practices and help to build legitimacy and confidence in a new organisation. Obviously, this role was played by Altair during the organisation's first three years, but FHFL has also leveraged the expertise of other international companies, including Ernest & Young (EY), who serve as its external auditors.

Innovation

Developing a good understanding of international best practices enables the development of new approaches to housing finance solutions. FHFL has stood out for its willingness to experiment with innovative funding models and product designs which had, until then, been largely untested in Nigeria.

Coordination between the public and private sectors

FHFL is an example of how the public and private sectors have worked collaboratively to co-deliver a financing solution to Nigeria's housing problem. It operates in harmony with the goals of public policy while operating with less top-down interference and more administrative efficiency than government agencies tend to. Its degree of association with the federal government lends it prestige and legitimacy in negotiations with state governments while retaining the benefits of operational independence. To date, these negotiations with state governments have, in turn, provided the FHFL with more than 4,000 hectares of land across 28 of Nigeria's 36 states, dramatically cutting development costs and enabling the new housing to be genuinely affordable to borrowers.

FHFL has also commendably sought to expand the role of the private sector, which now not only delivers housing construction but also financing and capacity-building activities.

Demand and supply interventions

FHFL has demonstrated the importance of a holistic approach in the design and implementation of affordable housing in emerging markets. At a very early stage it was recognised that, for the organisation to have a desirable effect, it needed to address supply and demand issues constraining the development of affordable housing. By designing a range of interlinked demand and supply interventions, it has been successful in delivering

more homes compared to similar institutions that have adopted a less comprehensive approach.

Diverse sources of funding

FHFL does not rely on a single source of funding; instead, the organisation raises money via several pathways: initial investment from the Federal Government and the Sovereign Wealth Fund is expected to be followed by funding from the for-profit private sector, pension funds, insurance funds, multilateral agencies and impact investors. Eventually, the repayment of affordable housing loans will provide a source of capital lending, too. This diversification of income options and blended finance has arguably given FHFL a more stable and sustainable business model than rival initiatives to solve the housing crisis.

Governance

While it is essential to ensure that a new organisation has a reliable funding base, this alone does not guarantee success. Equally important is how the new organisation uses this funding. Many previous housing initiatives in sub-Saharan Africa and elsewhere have benefitted from the substantial initial investment, as well as a strong political mandate, but have then proceeded to fail through corruption or incompetence.

FHFL has avoided this trap by committing itself to the highest standards of corporate governance and transparency. Rather than relying on political appointees, the 7-person board is composed of representatives of the two shareholders, one executive, and four independent members, all chosen for their financial expertise, professional competence, and sound reputation. This approach has bestowed two key benefits: one, it has built up the organisation's credibility with lenders, international donors, and other key partners; two, it has ensured that the organisation prioritises its overriding corporate objective – of providing more affordable homes – over the personal interests of its senior leadership team.

Leadership and organisational culture

Ultimately, the success of any organisation is down to its people. The leadership team play a particularly important role in setting an example for other employees and shaping the culture of the organisation. FHFL's first CEO and MD, Femi Adewole, has demonstrated professionalism, ambition, and strategic vision in leading the organisation through its early years, contributing a great deal to its success.

Looking forward

Looking at the road ahead for FHFL, there are several opportunities and threats:

OPPORTUNITIES	THREATS
<p>Expansion across Nigeria</p> <p>One key opportunity for FHFL is expanding geographically to become an established affordable housing developer across different parts of Nigeria. This would allow the organisation to significantly scale up its delivery of affordable housing solutions. Furthermore, by embedding themselves within several different individual states, they would be able to hedge against economic and political risks in particular areas and ensure they remain “apolitical”, insofar as it distances them from the fortunes of political parties in federal elections.</p>	<p>Reputational damage</p> <p>FHFL should aim to remain politically neutral, as not doing so has clear risks. Being perceived as “apolitical” serves to protect institutions’ independence and build trustworthiness with various stakeholders.</p>
<p>International expansion</p> <p>Nigeria is not alone in experiencing a housing crisis. If FHFL continues to prove financially viable, and assuming that expansion across Nigeria is a success, the leadership should consider whether FHFL has the potential to thrive in neighbouring markets.</p>	<p>Financial viability and non-performing loans</p> <p>Given that it operates as a private limited company (albeit one with a unique relationship to the state), the FHFL should continuously monitor the viability of its business model and the reliability of its sources of funding. While FHFL has an impressive 0% rate of NPLs as of October 2022, as a provider of products specifically designed to be accessible to middle- and lower-income households, it must stay vigilant to avoid lending to borrowers who would be unable to repay their loan.</p>
<p>Diversification</p> <p>The early indicators suggest that FHFL’s flagship HTO product will be a success. There is no reason to stop here. For example, the organisation is already in the process of developing a Rental Housing Fund, which is targeted at providing</p>	<p>Mission creep</p> <p>While introducing new products or services is important, this should be done with the same careful approach undertaken for HTO. Any new products or services offered should be consistent with FHFL’s corporate strategy, and subject to rigorous financial</p>

<p>affordable rental housing for low-income individuals who are ineligible for or uninterested in a mortgage, with an option to buy further into the lease. Different demographics will require different approaches to ensure that decent housing is affordable and accessible for them.</p>	<p>viability testing. Nothing should distract from the core goal of scaling up the provision of decent, affordable housing.</p>
<p>Green financing</p> <p>The leadership of FHFL have been clear in their commitment to combat climate change, with a portion of its budget reserved for green initiatives. Housing finance products can be designed in such a way that they incentivise climate-friendly activity: for example, one area of interest is the development of “green mortgages”, which would provide a discount on interest rates to borrowers who purchase homes which meet certain energy efficiency standards.</p>	<p>Climate change</p> <p>As well as a housing crisis, Nigeria is facing a climate crisis. These crises are not unrelated: the construction of new homes can be a major driver of carbon emissions, as are energy consumption and wastage by residential properties. The effects of climate change, such as soaring temperatures and rising sea levels – which Nigeria is particularly vulnerable to, given its geographical position – can serve to damage or destroy housing stock. Without careful planning and countermeasures, this could undo FHFL’s progress in delivering homes. The company should consider making its mission to promote the development of affordable green finance homes and build the capacity of the housing value chain actors to this effect.</p>
<p>Governance and ownership</p> <p>The early introduction of good governance practices, including the appointment of a highly competent leadership team, has ensured that FHFL is poised to take full advantage of future opportunities.</p> <p>Likewise, continued support and sponsorship from the Nigerian state, and the access to concessionary funds that this has provided, has also placed FHFL in a strong position for the future.</p>	<p>Leadership transition</p> <p>To ensure the company continues to thrive, it needs to manage the transition resulting from the retirement of the MD carefully, as existing organisational systems and practices, while highly effective to date, is still somewhat fragile and not fully embedded.</p> <p>The company should also consider weaning itself from political control by diluting the shareholding interest of the state and inviting private sector investors to play an increased role in the ownership of the company. This would encourage much-needed private sector investment and embed private sector ethos and practices in the governance and day-to-day management of the company.</p>

In sum, the establishment of FHFL has provided a solid foundation for tackling Nigeria's housing crisis. Its progress should be continually monitored, which will allow it to be developed into an increasingly useful model to follow in other countries. If the FHFL continues to build upon its initial success, we can expect access to affordable housing to be improved, and broader socioeconomic inequalities and deprivation to be reduced.

