



The Significance of a Mortgage in Real Estate.



What Is a Mortgage?

A mortgage is a form of loan specifically designed for acquiring or maintaining a house, land, or any other form of property. The individual taking the loan commits to repaying the lender, usually through a set of scheduled payments that consist of both the principal amount and interest. The property in question is used as security for the loan





How does Mortgage in Nigeria work?

Just like any other loan, a mortgage comes with an interest rate. In Nigeria, these rates typically vary from 15-25% for commercial and mortgage banks, and 7-10% for the National Housing Fund (NHF).

In addition to the interest, a prospective mortgage applicant will also need to contribute equity. Equity refers to a specific percentage of the total amount required for the property purchase, which usually falls between 30% and 70% of the property's total cost.





A mortgage also includes a predetermined repayment period, known as the tenure. This is the duration within which the mortgage loan must be repaid. In Nigeria, the tenure is typically set at 20 years.

Income is a crucial factor in securing a mortgage loan. The income statement from the previous year plays a significant role in determining whether a mortgage application is approved or not.





Types of mortgages in Nigeria



Fixed-rate mortgages: This is a type of mortgage where the interest rate does not fluctuate but stays the same for the entire duration of the loan.



Floating or variable mortgages: This is a mortgage type, often referred to as Adjustable Rate Mortgage (ARM), where the interest rate is subject to change periodically, based on a predetermined index agreed upon at the start of the loan.



Balloon mortgages: This is a type of mortgage where the borrower is required to make only interest payments throughout the loan term, with a substantial lump sum payment due at the end of the loan period.



Mortgage Institutions in Nigeria



Primary Mortgage Institutions: (PMIs) are financial organizations that specialize in offering loans to individuals for real estate purchases. Their primary focus is on facilitating home ownership by providing mortgage financing



The National Housing Fund (NHF): Under this scheme, every Nigerian earning an equivalent of the National Minimum Wage or above contributes 2.5% of their monthly basic salary to the NHF. The Federal Mortgage Bank of Nigeria administers the fund, making affordable loans available to contributors for home ownership



Commercial Banks: Banks also act as mortgage facilitators as almost every bank has a mortgage arm where its customers can access a loan to purchase a property.




The Mortgage process

Homebuyers have the option to apply for a mortgage after selecting a property to purchase or even while they are still in the process of looking for one, thanks to a procedure known as pre-approval. Pre-approval for a mortgage can provide buyers with a competitive advantage in a tight housing market, as sellers are assured that the buyers have the necessary funds to support their bid.

Upon reaching an agreement on the terms of their transaction, the buyer and seller, or their representatives, convene for what is referred to as a closing.



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