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Trends, Realities and Prospect of Housing Delivery through Mortgage Financing in Nigeria

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Abstract

Housing is one of the basic human needs. This accounts for the value and the attention given to it in all countries of the world. In Nigeria, it is noted as an integral part of every Nigerian's dream, thus, high premium is placed on it as a measure of success and economic freedom. Housing is perceived and actually seen as a long term investment that gives a hedge against high inflation. But the non-availability of public land for housing in order to meet the demand of ever increasing population of the country is building up tremendous pressure on the built environment. High cost of materials; inflation induced decreased purchasing power and lack of public and corporate finance in the sector can be considered as the most significant reasons among others. Finance, however, is the major hindrance to effective production or acquisition of affordable housing especially among the low and medium income earners in Nigeria. This paper reviews the trends of housing delivery in Nigeria through the intermediation of mortgage financing system. It discusses the challenges, proffers probable solutions as well as proposes recommendations for strategic repositioning of mortgage institutions for effective housing delivery in Nigeria.

Key words: Finance, Housing, Mortgage, Real Estate Development

Introduction

The influence of the financial sector is hardly felt in the building industry in Nigeria. To put it succinctly, housing finance through this sector has been negligible. Lemo (2007) observed that till the year 2007, from the inception of housing finance system in the country, only a paltry sum of about Seventy billion naira (N 70b) which is approximately US$ 58.3m, have so far been injected to the system. This only accounts for less than 0.5% of the Gross Domestic Product (GDP). The unsatisfactory performance of the housing finance system and institutions is linked with the twin problems of accessibility occasioned by underdevelopment of land tenure system coupled with inability of financial systems in providing low cost finance that meets the need of low and medium income group (Mailafia 2007).

However, workable policies on housing finance seem to be a long way off the entire polity. Though it could be observed that private participation is being embraced, while Public-Private initiatives are also taking root, in Nigeria, limitations arising from non-availability of public land for public infrastructure, recovery of funds, involvement of professionals in the building industry and cost of building materials have impaired the smooth delivery of many housing policies. Corrupt practices by government officials have hitherto limited the efforts of successive administrations. Mukhtar (2005) puts it clearly that governments lack both administrative and technical manpower to produce public housing in sufficient numbers. Most Nigerians also see mortgage loans from government as part of their share of the 'national cake'. This has handicapped the government to the point of advising prospective home owners to approach commercial banks thus pushing the supposed major player in the sector to the stand of spectators. High interest rate on loans has impeded and scared such prospective home owners from achieving their dream of ever owing a personal building. This study adopts a historical method to analyze the current trends in Housing Finance tracking recent sources. Varying sources were inquired, including formal and non-formal sources. Those which agree with each other are considered. When two sources disagreed, the authors have used their own expertise in the field to justify the statement. There are some points where there is no orthodox evaluation process, the authors used common sense judgment to validate the issue.

Background: Trends and Overview of Housing Finance in Nigeria

The Apex Mortgage Institution – Secondary Mortgage Institution started the role of major medium for housing finance delivery in 1956 as a retail mortgage outfit known as Nigerian Building Society (NBS). This was a joint British/Nigeria venture (Ahmed, 2006).

Taiwo (2008) agreed that Nigeria has witnessed three principal housing development periods vis-à-vis pre-independence (1914 – 1960), post-independence (1960 – 1979) and a second civilian administration period (1979 – 1983). He also observed that the 1991 Housing Policy has been unsuccessful in reducing the palpable, endemic nature of Nigeria Housing and Development sector. This 1991 Housing Policy was observed as a bold step taken by the Federal Government of

Nigeria at addressing the vexing issue of lack of finance for housing development (Anota, 2008). This policy was predicated on two major stands as follows:

1. The mortgage institutions decree (now ACT) No. 53 of 1989. This was promulgated to signal the establishment of financial institutions (i.e Primary Mortgage Institutions- PMIs) or mortgage savings for on-lending property development and mortgage creation. A secondary mortgage institution to serve as the Apex mortgage institution for regulation was equally established through the Act.
2. The establishment of the National Housing Fund (NHF) through decree (now Act No. 3) of 1992. This is to serve as a pool or collating centre of long term funds mobilized from workers both from the private and public sector obligatory monthly (deductions) contributions.

Private participation through mortgage banks and insurance companies with sustained contribution from the Federal Government was aimed at providing cheap loans for the provision of affordable housing for Nigerian workers.

Ahmed (2006) captured the aim of the government through the mission statement of the secondary mortgage institution: to supply the mortgage markets with sustainable liquidity for the advancement of house ownership among Nigerian anchored in mortgage financing. By this, the government desires to make access to decent housing easy and affordable. Federal Mortgage Bank of Nigeria performed the role of licensing, supervising and regulating Primary Mortgage Institutions from 1989 to 1997. This role was consequently ceded to the Central Bank of Nigeria in 1997. However while most of the PMIs became bankrupt during the economic depression of the nineties the advent of civil rule in 1999 injected some life into the system. This was achieved through the housing reform in 2002. The Apex bank was transformed into a truly government sponsored secondary mortgage operator in 2004. This according to Tanimu (2006) was a major goal of the policy towards a robust mortgage finance system by linking the housing finance markets to the capital market.

Issues and Militating problems

The pooled effect of high population upsurge and urbanization rooted on a declining economy of the nation as revealed in Nigerian cities has thrown the country into serious housing finance debacle (Adedeji, 2007). Ironically, the low-income groups who occupy the largest segment of the Nigerian society are the most affected by the finance menace. Though finance has been identified as pivotal in housing delivery in Nigeria (FGN, 1991), culminating in the promulgation of National Housing Fund (NHF) Decree 1992, less than 8 billion was accumulated and 450 million disbursed as loans in a period over a decade after the promulgation of this decree. Ogunsemi, et. al (2002) identifies increased investment in the domestic production of building materials such as cement, iron rods, roofing sheets etc as one of the basic factors that will bring down the cost of housing delivery. Commenting on this same issue, Odu (1992) posited that finance is the economic power needed to mobilize the materials and other resources required to actualize the goals of the various housing policies and schemes.

An important aspect of the housing finance is its dependence on the propensity to save. This is attributed to the fact that investment in housing, like in any other sector, has an opportunity cost. Such cost is the return on the alternative form of investment and unless until the return to housing investment is commensurate with or better than investment in other sector, there will be no significant in-flow of investible funds to housing (Agbola 1998, Diogu 2004). Anota (2008) agreed that the potential of the housing sector are grossly underdeveloped in Nigeria (Adedeji & Olotuah 2008). This is due to obvious inherent deficiencies in the housing finance system. Akomolede (2007) identify the absence of thriving and sound mortgage system. He opined that Nigerians, both as property developer or house buyer, do not have any other choice other than to take loans from commercial banks. Despite the unattractiveness and non-suitability of such loans, stiff conditions still need to be met before advancement.

Lemo (2007) equally observed that the production and supply of housing continues to be constrained due to the under listed:

1. Problematic land administration.
2. Poor infrastructural facilities such as road, electricity and water.
3. Lack of long term finance for construction and mortgage finance.
4. High inflation and interest rate.
5. Low income/poor earning power of the citizenry.
6. Low saving culture due to the absence of suitable savings mobilization mechanism. Consequently he concluded that affordable shelter is inadequate and adequate shelter is unaffordable.

While Anota (2008) agreed with Lemo (2007), he lamented the paucity of mortgage properties in the building market. Financial intermediation for housing is dismally low to such an extent that the ratio of mortgage loans and advances by banks to their overall portfolio stagnates at single –digit percentage. Faleti (2007) advocates the removal of legal framework complexities so as to remove the roadblocks to foreclose asset recovery. Absence of sustainable long term funds which is required for construction is the albatross of the mortgage system. The structure of bank deposit liabilities is “preponderantly short term”. It is due to the fact that these banks are not ready to bear the risk of mismatching short term deposit to fund mortgage concerns. Akomolede (2007) puts it clearly that the period for the repayment of mortgage loans in Nigeria is between fifteen to thirty years (15 – 30years). He however observed that there are some idle funds in term of minimum deposit that cannot be withdrawn in all the banks which can be assessed. Faleti (2007) disagreed with this submission because of the cumbersome legal framework.

Inability of the banks to recover collateral weakens the value of such. This also creates liquidity risk for banks between payment default and collateral liquidation. The requirement of Governor’s consent through the issuance of certificate of occupancy because of the Land Use Decree of 1978 lengthens the home loan processing time and slows down ownership confirmation. The cost of stamp duties, transfer duties and various taxes and levies make transaction cost too high to the low and medium income earners. The absence of a credit bureau and secrecy involved in the declaration of assets with the code of conduct due to non-passage of the freedom of information bill makes it difficult for both banks and lenders in the country to ascertain the credit worthiness of their clients.

The inefficient wage system and income distribution structure makes it difficult for prospective house buyers or developer to pay obtained loan back under short term arrangement. Job insecurity has rendered the private sector redundant and non-viable in such that no bank could afford to grant loan to the sector with the hope of paying back through salaries and wages. Though organized private sector, corporate bodies, registered companies are being addressed gradually, it is of high risk to deal with the unorganized private sectors such as artisans, sole business owners who are employers of labour.

Housing Finance Status in the Present Decade

Realizing the imperative for a robust housing finance system, the Federal Government in 2002, approved the current policy on Housing and Urban Development for the country to kick-start wide ranging housing sector reforms in Nigeria (Anota 2008). From all indications, the operations of the NHF under a new management at the Federal Mortgage Bank of Nigeria improved remarkably over the past 5 – 6 years as a result of the recent restructuring exercise in the Bank and the general reforms in the housing sector implemented by a presidential committee headed by Professor Akin Mabogunje.

Thus the NHF has been geared to offer improved services delivery for home-ownership to its contributors. Some important steps taken to review its operations, bring innovations and make loans cheaper and more affordable to contributors are as follows:

1. Lowering of interest rate from 9% to 6% for lending to contributors to the Fund by Primary Mortgage Institutions.
2. Increase of lending limits (loan ceiling to contributors) from N1.5million to N5 million per fund contributors.
3. Extension of amortization (repayment) period to 30 years from 25 to lighten the burden of repayment and to enhance affordability.
4. Effecting a change in the mortgage equity contribution, which are now FMBN 90% and Mortgagor 10% instead of the previous 80% and 20% by FMBN and the mortgagor respectively.
5. Expansion of borrower's income from which no more than one-third is applicable for loan servicing to include rental income, dividend and other income aside from salary.
6. Inclusion of house expansion as an acceptable purpose for NHF mortgage loans.
7. The introduction of multiple lending windows to accommodate PMIs, private housing estate developers, State Housing Corporations and Housing Cooperatives.
8. The encouragement of the production of target priced mass houses (of between N1. to N5m) by private housing Estate Developers, State Housing Corporations and Housing Cooperatives who can now access the NHF at

interest rate reduced from 15% to 10% for a maximum tenor of 24 months (with 18 months moratorium)

9. The removal of the emphasis on “block of existing mortgages” as the preferred security for assessing loans and the introduction of a plurality of alternative securities acceptable from PMIs for NHF loans including property owned by applicants company, property owned by Director of the applicant company, Bank Guarantee acceptable to FMBN, Insurance Bond/Guarantee, Debenture, Treasury Bills and other financial instruments and Tripartite Collaborative Agreements.
10. Decentralization of refund processing to shorten the period it takes.

Performance statistics on the NHF show that collections, registered contributors, loans advanced and refund to contributors have more than doubled since the housing sector reform commenced in 2002. As at December 2007, the scorecard was as follows:

1. Number of contributing states: from 2 states and the FCT to twenty (20)
2. Registered contributions: from 1,884,685 to 3,689,817
3. Total collection: from N10.4 billion to N32.1 billion.
4. Loans disbursed to PMIs: from N1.3 billion to N1.1. billion
5. Total number of NHF mortgage loan beneficiaries from 2,995 to 18,576.
6. Estate development loans disbursed from N406.5million to N22.2 billion.
7. Total number of housing units funded 662 to 36,853
8. total refund to contributors: from N50.6million to N670.8million
9. Total refund to contributors: from 9,948 to 42, 162.

More recently, the FMBN in realization of its central role in implementing the reforms for robust housing system in Nigeria made its foray into the capital market with the successful issuance of the first trenched of its N 100b mortgage backed bone in which the sum N 126b was raised from the capital market to finance the sale of Federal Government houses in Abuja.

This in effect marks the commencement of real secondary mortgage operation in the country, with FMBN being registered as an issuing house by the Securities and Exchange Commission (SEC). The main objectives of the ongoing reforms in the housing finance sub-sector can be summarized to include among other things to:

1. Link the housing finance sub sector to the capital market.
2. Encourage the emergence and growth of a viable secondary mortgage market for wholesale mortgages and active trading in mortgage backed securities and bonds.
3. Encourage investment in housing by CBN, Banks, Insurance companies, pension, Mutual and Trust Fund administrators and other financial services/intermediation organs.

4. Strengthen the capacity of the Primary lending System to mobilize funds for mortgage creation.
5. Encourage a private sector led housing development and housing finance framework.

We need to acknowledge at this juncture that Banks in Nigeria with their newly enhanced capital base after the 2005 recapitalisation exercise are now beginning to explore the housing and property sector more than ever before (Faleti 2007). Activities in these banks include:

1. Floating or acquisition of PMI subsidiaries through which they engage directly in mortgage financing activities.
2. A large number of banks are also offering mortgage credits to gain fully employed workers (although this is still being done at a relatively exorbitant and prohibitive interest rate of about 16% and above with short tenor of between 2 – 5 years that hinders affordability).
3. Many banks now operate mortgage/housing dedicated savings account among other innovative product.
4. Some banks join hands to syndicate loans for Estate developer while some have even gone ahead to float Real Estate Investment Trust (REITS) Scheme in the capital market.

All these are signs of the changing times and better things to come as far as housing/property finance in Nigeria are concerned.

Recommendations and Conclusion

Based on the foregoing, the paper proposes the following recommendations:

1. The primary mortgage institutions should be strategically repositioned and strengthened to serve as a vehicle for housing delivery.
2. The secondary mortgage market should be effectively developed and linked with the capital market to make housing finance accessible to the larger population as means of economic empowerment.
3. Rural housing programme should be promoted through market support incentives and local materials development. Cash crops such as cocoa, cotton and palm oil can become part of collateral securities in the rural setting for low income housing units.
4. The major problem with commercial loans is the interest rate. Government should evolve policies that will make banks grant loans for housing at a special interest rate not more than 5% per annum. Budgetary allocation should be made to finance housing just like it is done for health, education and other sectors of the economy. All accrued monies from sales of federal houses should be handed over to the secondary mortgage institution so as to redirect such into housing development.
5. The National Housing Fund (NHF) scheme needs updating and amendment where necessary. If this laudable idea is complied with by all, it will provide easier means of fund to property developers. Government at the federal level reserves the locus standi to set up a tripartite arrangement whereby the Federal

Mortgage Bank gives loans to property developers who in turn build houses and sell to individuals who will have automatic mortgage on the houses. This will eliminate the legal encumbrances being experienced by individuals at obtaining Governor's consent for land acquisition. These corporate developers will deal directly with government in land issues while all the papers are handed over to the mortgage banks who will hold on to such documents until the house owners finish paying.

6. Primary Mortgage Institutions (PMIs) need to be made accessible to prospective home owners. The awareness about this institution is almost none existing among the people. They seem not to be within reach. Most of the state capitals cannot boast of single PMIs. Therefore an appropriate regulatory reform that will reposition the Primary Mortgage Institutions (PMIs) should be put in place. This Mailafia (Ibid) agreed will enable the sub-sector play the expected roles for the delivery of affordable housing stocks on sustainable basis particularly to low income group through resources mobilization within the framework of National Policy on housing finance.
7. For a sustained massive development of housing in Nigeria, Saka and Aiyetan (2006) agreed that there is a compelling need for the domestic financial institution to provide fund by giving access to short and long term loans at low interest rate. This was due to what Ajayi (1998) noted as a remarkable change in the Nigeria

economy. He averred that the erstwhile optimism of the 1970s and 1980s has change drastically. Babajide (2006) equally agreed that the viability indicators upon which decision making in property development is based are fast becoming more difficult to predict in a dynamic and unstable economic system like Nigeria.

8. Efforts should be made towards evolving a comprehensive regulatory framework for Asset-Backed Securities (ABS). These will include the rules and regulations that will govern security of tenure, foreclosure of property in non-performing loans and the use of non-property assets as loan collateral.

These ideas will ensure a stronger, better positioned and vibrant sub-sector capable of executing housing delivery through mortgage financing. The non-formal sector should equally be encouraged to form cooperative societies that will in turn advance housing loans to members at simple interest rate within a reasonable period of time. This paper identifies the journey so far in housing finance in Nigeria, the roadblocks to optimum achievement and the progress made in the last ten years till date. It observed that housing programme in Nigeria have recorded steady failures in meeting their set goals over the years. However, all efforts made both by governments and the private sectors can yield maximum results if the housing finance process is enhanced to meet the challenges of funding the housing deficit gap, particularly the low-income groups in Nigeria.

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