An assessment of mortgage banks in housing development in Nigeria.

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Abstract

The study examines the effects of mortgage banks in housing development in Nigeria. Housing is one of the most essential basic amenity as well as one of the surest means for poverty alleviation, job creation, crime reduction and general National security. However, the will to progressively entrench this Fundamental Human Right is lacking in Nigeria with over 50 years of post-independence. Findings shows that the housing sector plays a vital role in the welfare of a country and her people as it has a directly proportional effect on the performance of every sector of the country's economy. In addition to food and clothing, housing is a basic need to mankind and so, Nigeria has been greatly involved in the provision of adequate housing. It is therefore imperative to conceptually examine the effect of mortgage financing on housing development using Nigeria as a case study. The study was carried out by a review of literature and also by the analysis from primarily sourced data, data collected from journals of financial institutes and other related sources. These data collection instruments would enable this study identity and document the impact of mortgage banks in housing development in Nigeria as the importance of mortgage credit, commercial bank credit and investments from private sectors cannot be overemphasized in providing adequate housing for Nigerians. The paper finally concluded that the goal of commercial banks, mortgage banks and private investors is to make funds for property development accessible to prospective borrowers at cheaper rates, it was however recommended that Mortgage finance houses should be more aggressive and supportive in mobilizing fund for the housing sector.

1. INTRODUCTION

Humans always seek for an abode From the rural setting to the urban setting, other needs of life may be provided for but if there is no housing, then man's needs have not been properly attended to. The Government, public, as well as private organizations of a country all have various roles to play in the provision of adequate housing facility for her citizens. The problem of housing is that most Nigerians find it difficult to afford or pay for accommodation due to recession, low salaries, high house rents and high cost of living.

It was due to these challenges that mortgage banks and other financial institutions were set up to provide adequate housing for the people. The mortgage banks were designed to assist Nigerians by giving out loans and help in acquiring accommodation. Despite these efforts, the problem of housing still persists. It is no news that one of the major challenges of the Nigerian economy is that of developing a sustainable housing and mortgage finance system befitting of a dynamic, competitive and equitable economic & financial system as Nigeria's.

Housing problem is a global phenomenon confronting developed and developing, rich and poor nations Agbola (2007). Over time, the Government had been the apex player in the area of housing development in Nigeria, by providing finance for previous housing schemes. This was contained in the housing policy of past administrations. But today, due to their gross mismanagement and misappropriation of public funds and revenue, Government has failed in their ability to continue to play her role as before (Nubi, 2000). It is on the basis of the aforementioned that this work conceptually examines the role of mortgage banks in housing development in Nigeria.

Therefore, the main objective of this study is to examine the implications of mortgage banks in housing development in Nigeria. The specific objectives are as follows:

- To determine the effect of mortgage credit facilities on the provision of housing for Nigerians.
- To assess the role of the Government in provision of adequate housing for the masses.
- What factors limit the efficiency in the operations of mortgage institutions towards the achievement of its goals and objectives?

This work is classified into five sections. Section one is the introduction, section two is the theoretical framework/literature review. Section three shows the role of mortgage institutions on housing development, section four outlines the problems faced by these institutions. In section five, the conclusion and recommendations are presented.

2. THEORETICAL FRAMEWORK/LITERATURE REVIEW

2.1. Theoretical Framework

The relationship between mortgage financing and business activity in the housing sector can best be understood from the theory of general finance that explains the process through which credit from the finance sector influences employment and output in the real sector of the economy. This relationship is called the transmission mechanism. In other words, the transmission mechanism is the channel between the monetary and real sectors of the economy (Pius, 2012). The title theory of mortgage financing is used in the United States as well as most developing nations such as Nigeria.

2.1.1. The Title Theory

According to Gilbert (1968), this theory states that upon making the mortgage, the mortgagor passes title of the property, the subject of the mortgage, to the mortgagee, subject to a term or condition. This condition is the payment of the debt. Once fulfilled, title to property reverts to the mortgagor. For example, Mr Ali (mortgagor) mortgages real property to Mr Bassey (the mortgagee) in a title state. Under normal terms, title passes on to Mr Bassey. However, the condition will state that if Ali complies with the condition (makes payment), then the instrument will be void.

At the time of the mortgage, by virtue of a provision in the mortgage, Ali is generally entitled to remain in possession of the property even though he passed title to his mortgagee.

2.2 LITERATURE REVIEW

Housing is very vital to man and despite the rate of hardship, people must secure a roof over their heads. On the other hand, people must borrow money to finance their financial obligations either from informal financial institutions or formal institutions like banks. In most cases, the lenders ensure that there is adequate security backing the loaned money. However, such lenders may still suffer loss if the debtors fail to pay back borrowed money. This may be due to economic recession, bad business decisions among others. Assets are tendered as collateral so that in a case of failure to pay back, the creditor has the right to sell the said property.

Mortgage financing is a keyword in housing development in Nigeria. Despite the fact that the Nigeria mortgage sector has experienced a lot in the last three decades, it has remained unknown to some Nigerians because it has failed to play its role of assisting Nigerians who are potential house owners (Okonjo-Iweala, 2013). Housing is one of the basic need of man and it ranks next to food (Alebiosu, 2009). It spans beyond shelter because it includes utilities such as electricity, water supply, good roads, sewage management access to health and educational facilities. It is the key factor determining urban form (Pius, 2012). It is one of the three most important basic needs of mankind, the others being food and clothing. In addition, it is one of the parameters used to evaluate and assess the standard of living of people living in a geographical location.

Development is the process of carrying out works involving a change in the physical use or in the intensity of an existing use of land or buildings (Balchin et al., 1988). Consequently, Government has put in place, programs to assist in the area of finance and provision of infrastructures. The issue of finance has lingered on for obvious reasons because provision of housing facilities require huge capital which in most cases is far beyond the capacity of low and medium income earners. The housing problems faced by rural dwellers includes reconstruction of existing structures, erection of new and standard buildings and close supervision of existing structures. In Nigeria, the housing problem can best be described as endemic. Despite the Federal Government's knowledge of factors that can engender housing production, only a small percentage of annual housing requirements are met. The public and private sectors are however expected to play major roles in housing development in Nigeria and also support the efforts of the Federal Government.

3. ROLE OF MORTGAGE BANKS/ INSTITUTIONS IN HOUSING PROVISION

According to Sanusi (2003), there is a decline in housing finance generally. But despite this decline, housing developments are being embarked upon by Nigerians. Government has put in place various schemes and policies aimed at providing affordable, conducive and comfortable housing for all Nigerians. Key players being the Federal mortgage bank and the primary mortgage institution**.**

Mortgage institutions are recognized bodies licensed to carry out mortgage activities/businesses in the country such as granting of loans to prospective homeowners, improvement of personal and commercial buildings to mention a few (Guidelines for PMI, 2003). They could either be owned privately or may exist as corporations. Examples include the primary mortgage institution (PMI), the Federal mortgage bank of Nigeria (FMBN), among others.

The primary mortgage institution which is regulated by the Federal mortgage bank raises funds by borrowing not more than 50% of its shareholders funds from the Federal mortgage bank. The major role of these institutions is to formulate,implement, coordinate and control policies for raising funds and disbursing same to the various beneficiaries of housing development projects (Acha, 2007).

The Federal Mortgage Bank of Nigeria commenced operations in 1978 with a mandate to coordinate mortgage lending nation-wide, using funds generated from deposits and contributions by the Federal Government and CBN at interest rates far below the market rate. The Federal mortgage bank is the apex mortgage institution in the country and the only institution at the source of housing finance. It is being regulated by the Central Bank of Nigeria.

The FMBN provides banking and advisory services, and handles research activities pertaining to housing. It gives loans for housing development schemes and projects in the country but disburses the funds through the primary mortgage institutions (PMI). They also supervise the activities of the PMIs to ensure a suitable and favorable condition for the operators of the industry.

However, it is worthy of note that due to the strict regulations of the FMBN, the operations of the PMIs suffer setbacks thereby reducing their efficiency in providing adequate housing. As at 1980, the FMBN was the only mortgage institution in Nigeria. However, it is still debatable if this mandate has been fully performed to satisfaction to date.

Other means have been set up to further enhance housing development in Nigeria. Amongst others are the following;

- **Insurance Companies**

Insurance companies are well positioned to provide housing finance owing to their stable source of funding and long-term nature of their liabilities. The loan structure of insurance companies is a proof that they play a key role in mortgage financing. Therefore, they can be termed 'fund mobilizers', because they are an important source of capital fund for the housing sector and the economy at large. Funds from life insurance companies provide resources for the financing of the housing sector in Nigeria.

- **Credit Policies**

Bearing in mind the importance of the housing sector, and considering the fact that banks, through retail deposits, adequate infrastructures to process real estate loans and the technological know-how on risk management associated with it, have been persuaded by the Central Bank of Nigeria to support and enhance housing development in Nigeria. More significantly, the CBN has been able to get merchant and commercial banks to allocate a minimum percentage of their credit to the housing sector.

- **State Government Financing**

State Governments have also been known to play a vital role in mortgage financing by establishing agencies which execute housing programs. The Local Government on the other hand provide residential layout for low income earners and provide need infrastructures for the rural populace (Kabir et al., 2012). The Government derives funds from budgetary allocation, facilities from development institutions and channels them through the various states' development finance institutions which includes the Housing Corporations or Investment and Property Development Corporations. These institutions lend the funds to individuals for building construction. The regional housing Corporation was set up with clear mandate to provide long term credit for housing development.

- **Specialised Institutions**

Apart from banks and insurance companies, specialized institutions, such as semi-government agencies, mortgage banks and building societies are also actively involved in housing development in Nigeria.

4. PROBLEMS OF MORTGAGE FINANCING IN NIGERIA

Some of the challenges encountered in the delivery of affordable housing include:

- Risk of liquidity is a major impediment to access mortgage loan facilities of long tenures.(Sanusi, 2003)
- Bureaucracy in the granting and disbursement of mortgage loans to the borrowers.
- Misunderstanding of the banking terms by the depositors and the public due to the used of technical and professional terms which are not understood by a layman.
- The low interest rates on the National Housing Fund implemented by law discourages banks and insurance companies from investing in the NHF.
- Problem of repayment of loans by the borrowers.
- Divestment of funds meant for housing schemes by beneficiaries and corrupt staff of the institutions.
- Loss of focus of PMIs has made them divert their strength to non-core activities. They now source for funds for purposes other than mortgage financing.

5. CONCLUSION/ RECOMMENDATION

Shelter remains a major index in the assessment of the standard of living of a nation. Government at all levels have made efforts to provide adequate housing through the actions of d mortgage institutions yet the problem of housing is still insurmountable. Problems such as bureaucratic bottlenecks in administration, poor saving culture, and misappropriation of funds amongst others have impeded the smooth running and operations of the mortgage sector. In conclusion, mortgage financing have produced some impact in the housing sector which is worthy of salutation. However, the supply of credit and funds by the Federal Mortgage bank of Nigeria is still very much inadequate to meet the growing demand. Generally, there is a decline in housing financing.

RECOMMENDATIONS

Following an appraisal of the assess of mortgage banks in housing development in Nigeria, this study recommends the need to review mortgage related laws in the country as well as constitutional amendment of the Land Use Act 1978. This will enable PMIs make more mortgage loans available to the citizens on more friendly terms and conditions. In addition, the housing fund contribution should be incorporated into the tax system so that a portion of the taxes paid is allocated to the housing sector. There should be establishment of mortgage liquidity facility institution which will provide funding on a long term basis for the mortgage banks and housing sector. Also, Complementary organizations of the housing sector such as cooperative societies should be encouraged to enhance the saving culture especially for low income earners.

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