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The Assesment of the Contribution of Primary Mortage Institutions to Housing Finance in Nigeria: A Case Study of Union Homes Savings and Loans PLC

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Abstract: The problem of housing affordability and the provision of quality services by the mortgage industry which includes financing have always being a major concern to the public as a whole. This research is therefore aimed at discovering the activities, achievements and limitations of the mortgage industry especially in the primary mortgage institutions using union homes and loans as a case study. The study is focused on the operations of union homes savings and loans PLC because it is one of the most prominent PMI's in Nigeria. The study involves the distribution of questionnaires to the staff of union homes. It was discovered that Union homes has contributed a great deal to housing finance sector in Nigeria as a result of funding several housing estate and granting of both social and commercial loans to individuals for housing purposes. The study also looks into the problems affecting PMI's and problems associated with mortgage sector in Nigeria. It was further discovered that most PMI funded loans do not take >3 week before they are approved and this is preferred by the mortgagors not minding the high interest rate and mortgages loans granted are given on short term basis. It was therefore recommended that low interest rates on the PMI funded loans should be introduced by PMI's and PMI's should be encouraged to improve their capital base in order to empower them for greater effectiveness in financing housing. This will give them wider coverage and enable them access greater pools of funds.

Key words: Primary mortgage institution, housing finance, real estate, finance, granted

INTRODUCTION

The importance of housing finance in any economy cannot be overstressed. It drives the provision of housing which is more than shelter, since it involves all the services and utilities that make a community a livable one. Housing is also one of the best indicators of a person's standard of living and his or her status the society. In spite of the crucial role housing plays as a basic needs, it has remained inadequate in supply in practical all human societies' right through history. An active and buoyant housing sector is an indication of a strong programme of national development. It serves a foundation for and the first step to the future economic growth and social development. The housing sector plays a more critical role in a country's welfare than is always recognized as it affects not only the well being of the citizens but also the performance of the sectors in the economy.

Mortgage financing represents the genuine means of housing in the world's developed economies and is also more of a challenge in developing countries. For example, United Kingdom has the largest mortgage market in Europe which is approximately 25% of the European market. In Mexico, the housing finance market is in a state of retrenchment, the macroeconomics environment has not been favorable to the development of primary mortgage market (Lea, 1996). The Mexican mortgage is highly segments with a verity of mortgage programs designed for different sectors.

In Nigeria, presently the mortgage sub sector accounts for >10% of Nigeria's Gross Domestic Product which means that the opportunities that exist in this sector to boost the nation's economy cannot be exaggerated. The federal mortgage bank of Nigeria puts an estimated over 10 million homes as housing deficit in Nigeria; the implication of this is that with time the mortgage industry will also become large in the Nigeria capital market.

The mortgage industry in Nigeria involves few active players which are often banks subsidiaries and a collection of smaller inadequate mortgage institutions. These institutions include semi government agencies, mortgage banks and building societies. Mortgage financing has often been fingered as the most difficult constraints in the Nigerian housing sector. One of the major problem has been the inadequate supply of long term funds which represents the major means of providing mortgages. Thus, the system has relied on compulsory

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savings into National Housing Trust Fund (NHTF) scheme. As a result of this, effort has been made by the regulatory authorities in Nigeria to increase the supply of long–term funds for onward lending to prospective homeowners. A few of these effort include the recent recapitalization of Primary Mortgage Institutions (PMIs) in Nigeria, the pension and financial sector reforms and the recently promoted Mortgage Backed securities on the future of investment return in the mortgage industry. This study is therefore set to conduct a thorough research into the Nigerian mortgage sector and the contribution of primary mortgage institutions to housing finance in Nigeria.

Literature review: A mortgage is a legal or equitable conveyance of property as security for a debt subject to a condition that the property will be reconveyed once the mortgaged debt is liquidated. It is important to note that a mortgage under any circumstances is not a sale of property. The borrower must have an unhindered right to repay the debt and redeem his property. It is peculiarity of mortgage transactions that led to the saying: "once a mortgage always a mortgage".

Wikipedia defines mortgage as the pledging of a property to a lender as a security for a mortgage loan. While a mortgage in itself is not a debt, it is an evidence of a debt. It is a transfer of an interest in land from the mortgagor to the mortgagee, on the condition that this interest will be returned to the owner of the real estate when the terms of the mortgage have been satisfied or performed. In most jurisdictions, mortgages are strongly associated either loans secure on real estate rather than other property such as ship or in some cases only land may be mortgaged. Arranging a mortgage is seen as the standard methods by which the need to pay the full value immediately. In other words, the mortgage is a security for the loan that the lender makes to the borrower. It is essential and much more preferred that a mortgage agreement should be in writing. This written document enumerates the terms and conditions of the mortgage including the repayment plan with interest rates to be charged on the loan, the powers of the Mortgage lender to exercise his powers of sale or appoint a receiver to sell the property without resort to lengthy litigation, insurance and so on.

Housing affordability in Nigeria: Shelter has been universally accepted as the second most essential human need after food. Unfortunately, this essential need is not readily available to many people in Nigeria. The reason for this state of affairs include the high cost of land and building materials, low income of the majority of the Nigerian workers, high interest on mortgages, poorly developed mortgage finance system, administrative bottlenecks that make processing and securing of approvals for building plans, certificate of occupancy and other necessary government permit and the unmitigated corruption in the allocation of government land within the framework of land use Act, Cap 202LFN 1990. The draft National Housing Policy (2004) defined housing as the process of providing a large number of residential buildings on a permanent basis with adequate physical infrastructure and social services in planned, safe, decent and sanitary neighborhoods to meet the basic and special needs of the population (Burns and Grebbler, 1977).

Affordability is the ability to pay for adequate housing. Affordability looks at whether the form, technology and cost of housing are compatible with the income flow of the prospective consumer of housing. Housing income is usually allocated to a number of competing uses such as food, clothing, education, health care, transportation and all other needs necessary to maintain a good and healthy life of the household within a given socio-economic and cultural environment. When the provision for housing affects the ability of the household to meet other essential needs, the household is said to be suffering from housing stress.

Housing affordability describe the extent to which households are able to pay for housing. In other words, the definition of housing quality embraces many factors which include the physical condition of the building and other facilities and services that makes living in a particular area conducive. The quality of housing within any neighborhood should be such that satisfies minimum health standards and good living standard but also be affordable to all categories of household. Social equity concerns the social view of housing and relates to a situation in which all citizens have access to housing without limitations as to one's socio-economic status in society.

The relevance of this view to housing accessibility is in ensuring that housing provision is not focused on some 'chosen' segment of the society but to ensure that all members of the community have equal opportunity to choose their own accommodation according to their means or affordability level. Social housing delivery is housing delivery that not only generate good quality and affordable housing but allocates its benefit equitably between the rich and the poor, regenerates the environment rather than destroying it and empowers the poor to have access to decent homes at affordable cost rather than mitigating or excluding them.

In summary, it can be described as housing delivery system which gives priority to the disadvantaged groups, enlarging their housing choice and opportunities and given them a say in decision that affect their housing needs and lives. Wikipedia defined affordable housing as a dwelling where the total housing costs are affordable to those living in that housing unit. In United States and Canada, a commonly accepted guideline for affordable housing is a housing cost that when the monthly carrying cost of a home exceeds 30-35% of the household income then the housing is considered unaffordable for that household. The maximum carrying cost limit will depend on the location, economic, social and cultural environment. In the absence of a standard figure for Nigeria, 50% is adopted as reasonable for the Nigerian socio economic and cultural environment. This is informed by the fact that most Nigerians' 50-70% of household income is devoted to housing.

In order to moderate the acute shortage of shelters in the country, the NHP for the period spanning 1994-1998 was expected to build 121,000 housing units. In addition, the number of Licensed Primary Mortgage Finance Institutions (LPMFI) rose from 251 in 1993 to 276 in 1994. However, by the end of 1998, it has declined to 115. The Federal and the State Government were expected to spend N = 2.7 million billion on housing provision during the 1996-1998 National Rolling Plan (NRP) (Get recent development). Despite all these interventions and huge investment in housing provisions since, the colonial times and to date, Nigeria's housing problem still remain intractable. In fact, access to decent shelter has worsened for increasing segment of the urban population in Nigeria. The deteriorating housing situation in Nigeria, especially at the urban centers is too critical to leave for government to redress alone.

Aikhorin spoke on Affordable Housing: the Masses Hope" that for hopes to remain alive for the masses and provision of housing with availability of funds assured, there was the need for a secondary mortgage market operation. The capital market remains the impetus to finance secondary mortgage operation to ensure sustainable liquidity in the housing sector. The orthodox approach to allocation of funds for housing by institutional lenders is to screen applicants on the basis of "affordability" defined as a simple relationship between the required monthly payment and the borrower income (usually 25-30%). Since, these institutions used the "fixed annuity" method of repayment, they effectively bar most low income families from obtaining a loan. Affordability was found to be a requirement that limited access to owner occupation for new households throughout England (Bramley, 1992).Access is another closely related term. Bramley (1992), defined access as the "formal rules governing households' ability to obtain housing". Of particular importance here as the rules applied by banks and building societies when they grant mortgages for house purchase.

The poor performance associated with small to medium sized indigenous contractors include protracted delay in payment for research done, lack of capital, high fluctuations in work load, inadequate resources, technical expertise, managerial skills and other items. The low-income groups in developing countries are generally unable to access the housing market through the mortgage institutions. Housing requirements for this group are both urban and rural based. In 1991, statistics indicated that about 70% of Nigerians fall in this category.

Problems of mortgage financing in Nigeria: Emefiele (2003) looked into a number factors that have identified the Nigerian financial system which have introduced a number of weaknesses and institutions, key among these are weak corporate governance practices such as insider abuses through bad/unpaid loans by financial system operators, inability of operators to develop strong internal control system to protect customers and businesses to forestall the ability which has often times resulted in the large scale fraud been perpetuated by fraudsters, non compliance with established rules guiding financial systems operators (and experience has shown that operators have flagrantly worked against these laws meant to protect their businesses; inadequate training for staff and management, their inability to imbibe the requisite skills in a changing world of globalization; inexperience on the part of the operators arising from the explosion in the numbers of financial institutions and concomitant thinning down the breathe of management and general decay in the moral and ethical ethos of the Nigerian society.

Abiodun identified two factors that contributed to the vague performance record of Federal Mortgage Bank of Nigeria as lack of information to most savings' contributors who are willing prospective borrowers and rigid conditions stipulated by Federal Mortgage Bank of Nigeria for obtaining National Housing Fund loan.

Sanusi stated that the statistics given by the appraisal of the mortgage financing sector is worrisome and points out the existence of some prolonged problems which has constrained adequate and efficient credit delivery to the housing sector. They include the following.

Low interest rate on national housing fund: The low interest rate level specified by law on investment on NHF makes the bank and insurance companies reluctant to invest in the fund especially as there are some more profitable investment avenues.

Low level of participation in the NHF scheme: The number of contributors to the NHF has been relatively small compared with the national work force. There are about 9 million workers who are yet to be registered and are therefore not making any contributions. There are also alleged cases of diversion of workers contributions to the fund by employers to other investment purposes.

Macroeconomics environment: The high inflation rate negatively affected the macroeconomics environment and as a result does not encourage contribution toward the fund because individuals are struggling to keep up with high prices in the economy.

Non vibrancy of some PMI's: The loss of focus by some PMIs in favour of non core activities such as trading as well as the slow disbursement of NHF to the PMIs by FMBN made some of them to be competing with the banks in sourcing for funds for purposes other than mortgage financing.

Cumbersome legal regulatory framework for land Acquisition: The existence of a cumbersome process of Title documentation of land ownership financing very difficult. This is seen as one of the factors responsible for slow disbursement of NHF.

The structure of bank deposit liabilities: This is generally short term therefore bank tend to avoid fund mismatch, borrowing short term but lending long term fund which is required in mortgage financing. The key issue that emerges therefore revolves around how to ensure adequate long term lending by financing institutions rather than the current short term lending practice. This requires significant intermediation efforts, especially, since housing finance is very sensitive to an inflationary environment. Another related issue is the inability of the financial institutions to mobilize resources effectively for low-income housing.

However, factors affecting PMI's operation in Nigeria can be evaluated from two perspectives-that of small scale individual borrowers (the micro scale) and at the macro level. Both are treated together.

Merett and Russel quoted in Nubi, criticized the wide disparity between what is actually needed to improve the housing situation in developing countries from the perspective of the majority of the citizenry and what actually exists in practice as entrenched by the PMIs in the formalized sector. While the demand is for flexible terms and repayment schedules assistance with land acquisition, short term loan maturity assistance with self help effort, detailed information in popular local languages that people can easily understand accessible locations for deposits and access to funds. The formal structure provides what appears to be the exact opposite in case and hence excludes the vast majority of persons who most need the assistance of the institutions. Apart from these, the situation in Nigeria is made worse by.

Low capitalization: PMI's capital base of N = 100 million is inadequate to finance housing on the scale the economy requires. In fact, most of them have not been able to cope with the volume of demand from their customers. Although, access to NHF is available to them through the FMBN, there is no doubt that a stronger capital base would better deposits and access to funds position them for greater efficiency in their operations.

Inadequate mobilization of funds through savings deposits: Okunmadewa noted that low incomes and a poor savings culture are to large extent to be blamed for this, PMI's too have not explored the full potential of their position in this area.

Distractions and failure to confine activities to savings mobilization and mortgage lending: Nubi found that a vast majority of PMI's in his study sample 80% engage in direct construction of houses for sale instead of giving loans to purchasers of house builders-a dangerous combination of credit risk with construction risk. About 60% were engaged in Lending Purchase Order (LPO) financing and merchandising. The 70% operate commercial banks.

Loan defaults: This is one of the risks of the business but many PMI's seem to have a good approach to minimizing this through appropriate credit risk assessment, proactive assistance and counseling. The use of mortgage default insurance will however ensure greater improvement.

MATERIALS AND METHODS

Questionnaires as a primary source of data collection were adopted because it provides a greater degree of responses when administered properly. The questionnaires were administered to the staff of union homes savings and loans PLC. Part of the observations made during the research shows that union homes has >250 staffs working in the institution.

RESULTS AND DISCUSSION

Data analysis and presentation: Result obtained in Table 1 shows that a large proportion (46%) of the respondents has between 6 and 10 years of experience, 26% of the respondent has above 16 years of experience while approximately 18% of the respondents have 5 year of experience. This shows that any information gathered from the staff of the PMI is considered to be authentic.

It is very clear from Table 2 that funds available to union homes is majorly from public deposit which is through fixed deposits and customers savings with 28 respondent while the capital market is the second major source of funds for union homes which includes funds from other banks, private and public investors and corporate bodies and also from an interview with a staff of union homes, the PMI being a subsidiary of a parent bank is also added advantage in terms of sourcing for funds.

Table 3 reveals that homes ownership loans are NHF loans which are disbursed through FMBN to make housing accommodation less difficult for the middle class and low income earners. It further shows that only 9 of the mortgagors patronize the Homes Equity Mortgage which enables homes owners to convert a significant proportion of their homes to liquidity to be able to finance the acquisition of asset without giving up their homes. Table 4 shows that the range of the equity contribution is between 20 and 30% for any of the products offered by union homes depending on the product, its benefits and all it entails. Total 14 of the respondents attested to the fact that the minimum equity contribution required of the mortgagors in the application for a mortgage loan is 20%, 37 of the respondents answered that between 20 and 30% is accept by Union Homes from its customers while only 3 of the respondents answered that between 30 and 40% is received by union homes which is in the case of large project or development.

The analysis in Table 5 shows that most of the loans granted are for a short tenor which is as a result of lack of fund in the mortgage industry and which generally discourages individuals from undertaking a mortgage facility compared to the NHF loan with a maximum repayment period of 30 years.

Total 6% interest rate is only applicable to the National Housing Fund Scheme and can be accesses through the FMBN (Table 6). About 16% is the least interest rate attainable on other loans or mortgage facilities such as commercial loans and social loans granted by union homes of the loans granted by union homes are at interest rate of between 21 and 25%. The result simply implies that majority of the mortgagors settle for social loan such as the NHF loan rather than the loans granted by the PMI considering the interest rates.

Total 5 of the respondents specified that it takes <6 months for NHF loan application to be approved, 20 respondents stated that it takes between 6 months and 1 year for the loan to be approved while 29 respondents indicated that it takes a period of >1 year for NHF loan to be approved after meeting all the necessary requirements. The data (Table 7) shows that the NHF loan can be regarded as to time consuming compared to other loans funded by union homes.

Table 1: Respondents years of experience in the mortgage sector

Experience (years)	Frequency	Percentage
1-5	10	18
6-10	25	46
11-15	5	10
Above 16	14	26
Total	54	100

Table 2: Sources of funds to union homes savings and loans

Sources	Frequency	Percentage
Fixed deposit/savings	28	51
Current accounts	9	17
Capital market	10	19
Others	7	13
Total	54	100

Table 3: Patronage of mortgage products

Mortgage product	Frequency	Percentage
Homes ownership	24	44
Personal loans	2	4
Homes equity mortgage	9	17
NHF homes ownership loan	19	35
Total	54	100

Table 4: Minimum equity contribution

Equity contribution	Frequency	Percentage
$>0\leq 20$	14	26
$>20\leq 30$	37	68
$>30\leq 40$	3	6
Total	54	100

Table 5: Terms of years for loan facility

Terms (years)	Frequency	Percentage
1-5	3	6
6-10	32	59
11-15	11	20
16-2	7	13
Above 20	1	2
Total	54	100

Table 6: Interest rates on mortgage loans

Source	Interest rate (%)	Frequency	Percentage
NHF loans	6	15	28
Union homes loans	16-25	39	72
Total	-	54	100

Field survey (2014)

Table 7: Period of approval for NHF loans

Period	Frequency	Percentage
<6 months	5	9
Between 6 month and 1 years	20	37
>1 year	29	54
Total	54	100

Table 8: Period of approval for union homes funded loans

Period	Frequency	Percentage
<1 week	15	28
>1≤2 weeks	29	53
>2≤3 weeks	10	19
Total	54	100

Table 9: Period of disbursement to union homes after approval

Period	Frequency	Percentage
<3 months	14	26
>3 months	39	72
>9 months	1	2
Total	54	100

Table 10: Rating the process of NHF application

Process	Frequency	Percentage
Straight Forward	0	0
Cumbersome	22	41
Time consuming	32	59
Total	54	100

Table 11: Rating the ease or difficulty of loan requirement

Requirements (%)	Easy (%)	Undecided (%)	Difficult (%)	Very difficult (%)
Equity contribution	10(19)	5(9)	25(46)	14(26)
Approved building	15(28)	7(13)	30(55)	2(4)
Balance in savings account	33(61)	3(6)	18(33)	-
Processing fees	3(6)	6(11)	21(39)	5(9)
Certificate of occupancy	4(7)	3(6)	26(48)	21(39)
Proof of income/pay slip	40(74)	1(2)	10(18)	3(6)
Income level	18(33)	10(19)	21(39)	5(9)

Table 12: Major obstacle to the growth of the mortgage industry in Nigeria

Major obstacle	Frequency	Percentage
Loan requirements	25	46
Inadequate funds	2	4
Government policies	8	15
High interest rate	19	35
Total	54	100

Field survey (2014)

Table 8 reviews that 15 of the respondent specified that it takes <1 week for loans funded by Union Homes to be approved while 29 which is the majority specified that loans funded by union himes are approved within two weeks. It can therefore be concluded that time is of essence and not interest which can be sited as a concrete reason why mortgagors would prefer the PMI funded loans to the NHF loan.

Only 1 respondent indicated that loans are disbursed over 9 months while 39 specified that it takes >3 months before the NHF loan is disbursed to union homes after its approval (Table 9).

The analysis shows that 32 of the staffs in union homes indicated that the process of the NHF loan is a time consuming exercise, none agreed that the process is straight forward while 22 of the staff claimed that the processing of the National Housing Fund Loan is cumbersome (Table 10).

Table 11 shows the respondent's opinion concerning the ease and difficulty of each of the loan requirement listed and analyzed above with different percentages representing each requirement.

Total 46% of the respondents specified that loan requirements is the major obstacle to the progress of the mortgage industry, 15% stated that it is government policies while 35% stated that high interest rate is the major obstacle making the mortgage industry to lack behind (Table 12).

From the result obtained, it was revealed that most of the applicants are not educated and enlightened about mortgage loans and this is a major problem of mortgagors amongst other challenges they face in benefiting from loan facilities granted by primary mortgage institutions.

Loan funded by the primary mortgage institutions do not take >3 weeks before they are approved and this is preferred by the mortgagors, not minding the high interest rate accrued to it rather than the NHF which takes a longer period before approval and disbursement to the mortgage institution.

Mortgage loan requirement is also an important factor that determines the participant of individuals in the mortgage sector such requirement include: Governor's consent, title documentation and equity contribution among other. Most of the projects handled by union homes savings and loans PLC are not linked to the NHF loan because most of the properties are above the N 5 million ceiling figure for the NHF loan and a result of this majority of the low income earners are at a disadvantage.

CONCLUSION

The research has shown clearly the problem of the mortgage industry in Nigeria which include: high interest rate tagged to PMI funded loans, the cumbersome process in the NHF application, PMI's low capital base among others and has also proffered some solutions which should be considered by the government and other bodies who are so involved, more effort could be put in by the PMI and the governments to ensure that the housing deficit is reduced to a minimal amount and that majority of the Nigerian citizens has a roof over their heads. The flexibility of interest rates on loans would also be of great interest to the mortgagors and would increase their interest in mortgage facilities given the assurance by PMIs that the interest rates are negotiable.

RECOMMENDATIONS

From the research work carried out by the researcher, the following recommendations are presented for deliberation by the primary mortgage institutions and the mortgage industry as a whole:

- PMIs should be encouraged to improve their capital base in order to empower them for greater effectiveness in financing housing. This will give them wider coverage and enable them access greater pools of funds
- The FMBN should look into the processing of the NHF loans which is time consuming and very discouraging to mortgagors. Period of approval and disbursement should not be long
- Low interest rate on the PMI funded loans should be embarked on in order to encourage the participation of low income earners in the mortgage business
- Sound economic and monetary policies should also be embarked upon so as to curb and overcome the negative effect of inflation in the economy which in turn may affect housing finance
- Estate Surveyors need to empower themselves to be proactive as initiators through consultancy services and should also be more involved in the packaging of housing development projects because they have a better understanding of issue with the housing sector as a result of their training and experiences

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