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MORTGAGE FINANCING IN NIGERIA: CHALLENGES AND THE SEARCH FOR STRATEGIES AIMED AT ACHIEVING GLOBAL COMPETITIVENESS.

OLOYEDE, S. A.
Department of Estate Management, Obafemi Awolowo University, Ile-Ife, Nigeria (e mail- samoloye@yahoo.com)

ABSTRACT

Property developers are facing micro and macro economic problems in their search for ways and means of ensuring sustainable growth. Issues such as higher than expected building period, building cost and interest charged on borrowed capital hinder this noble idea. Policies of various arms of government in Nigeria had been unstable over the years due to frequent changes in the polity.

The main objectives of this paper was to assess the acceptability of the National housing fund programme by the populace from the point of view of their participation, and evaluate the impact of the scheme on real estate development activities in the country as a whole.

At the empirical level, the Federal Mortgage Bank of Nigeria (Apex Bank), was studied with respect to both the collection of the national housing fund and the granting of mortgage loans to both the primary mortgage institutions and private real estate developers in the country. Current significant bottlenecks in real estate development as identified by primary mortgage institutions and private estate developers in Nigeria were looked into in an attempt at offering workable solutions. The result of this study shows that for the populace to achieve maximum benefits accruable from the sustainability of the national housing fund, the Federal Mortgage Bank of Nigeria should enhance its credibility by promptly considering loan applications forwarded. A situation where mortgage loan applications are not considered on time or funds not released to beneficiaries on time, can frustrate individuals. Once this is done, the national housing scheme would assist Nigerians to face the challenges of housing the masses squarely thereby achieving global competitiveness.

Keywords: Housing demand, housing need, mortgage financing, Nigeria.

INTRODUCTION

For a nation to achieve greatness, her government must be willing and capable of promoting adequate and affordable housing, economic opportunity and a suitable living environment free from any form of discrimination. Population growth and the preference for people to live in cities are probably two main reasons for urban expansion [Uher, 1999] and urban growth is in the developing world is increasing by over 3% annually. [Choguill, 1996] Urban expansion is a growing problem in both developed and developing worlds and it requires a sustained urban development strategy that can achieve a functional, comfortable, healthy and environmentally responsible living environment. [Uher, 1999]

As far back as 1978, two thirds of U.S. families own their own homes and the proportion is rising steadily and that in spite of inflation, high mortgage rates and taxes, home ownership is still the best, safest and wisest investment a family can make and the only way to avoid becoming house-poor. [Falcone, 1978] House construction is one of the largest industries in both developing and developed countries in terms of investment, employment and world economy. [Spence and Mulligan, 1995] It accounts for directly and indirectly for 40% of material flow entering the world economy [Roodman and Lenssen, 1995] and in developing countries for around 50% of the total energy consumption. [Levin, 1999; Bonini and Hanna, 1997]

Shelter production and improvement can only be achieved on a continuous flow only if all the five elements and the four actors in the shelter-delivery process are carefully harmonised. At the first level, issues of land management, basic infrastructure, local and imported building materials, improved building technology, and finance influence each other in varying proportions and collectively determine the number of beneficiaries on one part. The second issue that needs proper harmonisation concerns the actors in the shelter-delivery process and they include the government, public and private sector agencies, co-operative societies with collective guaranty schemes and households. It was in the light of this that the main objective of this paper was to assess the acceptability of Nigeria's National housing fund programme by the populace from the point of view of public participation, and in addition to evaluating the impact of the scheme on real estate development activities in the country as a whole.

Housing finance has been identified as a key component of a shelter strategy. It is the provision of finance or capital for housing. It can be taken, first, to mean the capital required for the construction of housing or housing projects. Second, it may be considered as the resources required for the construction of housing or housing projects and third, as the resources required for acquiring or accessing building by households or the credit supplied by housing finance institutions. [UNCHS, 1991]

In an attempt at providing a continuous inflow of funds into the housing sector at the national level and for all categories of human beings, there is the need for the objectives of such a policy to look inwards into the provision and mobilization of savings, reduction in costs and improvement of the efficiency of financial intermediation to promote free movement of capital throughout the national economy. It is an attempt at ensuring a continuous inflow of funds into the housing sector that the Federal Government of Nigeria introduced the National Housing Policy.

Activities of Federal Mortgage Bank of Nigeria

The Federal Mortgage Bank of Nigeria (FMBN) was established in 1976 with the main aim of considering and granting mortgage loans to Nigerians throughout the country with the Federal Government providing the funding which is expected to be a revolving source of funding owner-occupier housing for all cadres of people. Events from 1976 to 1992 proved the government wrong because mortgagors failed to repay the loans granted them and the laws for loan recovery was too cumbersome and time consuming for it to be meaningful. In line with practices in other advanced countries of the world, the Federal Government of Nigeria decided to handoff from the funding of housing hence the establishment of the National Housing Fund (NHF) as a veritable source and a sustainable means of providing funds for housing to the public at reasonable rates of interest through primary mortgage institutions (PMIs) and private estate developers (PEDs). By this, government was of the opinion that her mision of housing for all could be achieved faster and safer if individuals through PMIs and PEDs source mortgage funds. This is expected to ensure increase in the availability of decent, safe and affordable housing, equal opportunity in housing for all, promote self sufficiency and asset development by families and individuals while at the same time, community's quality of life and economic vitality is unconsciously improved

The Federal Mortgage Bank of Nigeria accredited 61 primary mortgage institutions (PMI) As at October 2003, the total NHF deductions collected by FMBN was #155,690,268 (US$ 1,161,867.67) as against the budgeted estimate of #233,668,483. A 66% achievement was recorded on the set target. As at the end of October 2003, the total NHF collection stood at #11,902,492,324. The Federal Government mandated all sectors of the economy to deduct 2.5% of an employed individual to the national housing fund and self-employed persons who are interested in seeking mortgage loans are advised to do likewise. In an attempt at assessing compliance, below is the sectoral performance.

Table 1: Sectoral distribution of NHF collection for October, 2003

Sector	Collection (#,000)	%Age Achievement
Federal Ministries	22,196	14.26
Federal Parastatals	75,363	48.41
State Ministries	4,697	3.02
State Parastatals	11,215	7.20
Local Government	1,028	0.66
Financial Institutions	20,447	13.13
Industries& Manufacturing	6,490	4.17
Construction Companies	100	0.06
Oil & Gas	753	0.48
Education Institutions	11, 080	7.12
Self employed	2,322	1.49

Source: FMBN Monthly Report for October 2003.

Reports by FMBN indicated the harsh opposition of the labour union hence the low returns from the three tiers of government. It is on record that mass withdrawals had been consistently recorded from the scheme with a sum of #92,425,642 for 14,115 contributors out of a cumulative total collection of #11,902,492,324 from 1,983,673 individual contributors. Thus 0.8% of the sum realised had been withdrawn by 0.7% of individual national housing fund contributors. At the state level, the performance was not as encouraging. The staff population of the 36 states put together is more than that of the Federal Government. A detailed analysis of national housing fund contributions is shown below.

Table 2: Performance of State NHF collections as at October 2003

States	No of States	Performance Range
Abuja FCT, Enugu	2	Above 250%
----	0	Between 201% and 250%
Bauchi, Katsina	2	Between 176% and 200%
Imo,	1	Between 151% and 175%
Lagos, Jigawa	2	Between 126% and 150%
---	0	Between 101% and 125%
Abia	1	Between 76% and 100%

Delta, Ebonyi, Kano, Ogun, Oyo,	5	Between 51% and 75%
Bayelsa, Edo, Ekiti, Kaduna, Kogi, Osun, Plateau, Rivers,	8	Between 26% and 50 %
Adamawa, Akwa-Ibom, Anambra, Benue, Borno, Cross-river, Gombe, Kebbi, Kwara, Nasarawa, Niger, Ondo, Sokoto, Taraba, Yobe, Zamfara	16	Between 0.1% and 25%

Source: Analysis based on FMBN, October 2003 Report

Since the national housing policy is meant to assist all Nigerians to source for funds to enable more people own individual houses, the uncooperative attitude of the Nigerian Labour Congress to date needs to be looked into by the Federal Government with a view to carrying the Union along.

Out of 36 States and Abuja, which is the Federal Capital Territory, only 7 States (25%) performed creditably up to and including October 2003. Surprisingly, half of the states could not even achieve a 25% target while another 8 states (25%) was between 26% and 50% of the target. This is a very poor performance since housing is seen as the second most important issue after food if family peace of mind, security and continued co-existence is to be sustained.

Despite the huge sum of money (#11,902,492,324) available as at October 2003, for mortgage lending; only 10 out of the 41 primary mortgage institutions (25%) had accessed the fund. The fundamental problem is a gap between potential demand and effective demand. The differentiating factors include differences in income levels, the ratio of price of housing to income, mortgage interest rates and employment stability.

A few large-scale contractors such as G. Cappa, Taylor Woodrow and Bouygues were engaged in nationwide residential housing provisions. Also, large-scale estate developers such as Alma Beach and Seagate joined in the production of residential houses. Through the availability of funds from the national housing scheme, 41 other private estate developers among who are Union Homes Savings and Loans Limited, Lagos State Building and Investment Corporation, Lagoon Homes Savings and Loans Limited and Scan Homes Nigeria Limited joined between 1996 and 2003. This new group are scattered all over the nation in an attempt at providing succor to the needy.

The potential for housing the masses is considerable if recognition can be accorded the co-operative societies through the collective guarantee schemes especially in the rural areas as support collateral for individual members or joint application for mortgage loans. Through this approach, the costly, cumbersome and time-consuming problems encountered in the process of acquiring a certificate of occupancy can be removed and the rural dwellers can benefit from the national housing fund.

Major issues at stake in mortgage business

The demand for mortgage credit is constrained by two major factors namely income and non-income–related. On the income-related constraints, there is the need to have various types of mortgage finance portfolio by types of credit. Mortgage credits for home purchase must be differentiated from the developers housing credit and commercial development credits in terms of loan/value ratio, maximum amount of loan, minimum down payment and interest rate chargeable. Affordability is a function of an individual's real income, rate of inflation on construction prices, maximum deposit/down payment required and interest on loan. Since an individual's real income is partially a function of his age, family size and security of job, much reliance is placed on a man's ability to offset his loan on or before his retirement age. This is to forestall large delinquency and default rates.

Non-income-related constraints play a major role in the demand for mortgage loans. First, human expectations and attitudes to indebtedness and cost of housing relative to other goods and income vary from one person to another. Second, there are mobility constraints such as the lack of rental housing that does not permit smooth relocation in cases of change of employment. Third, is the limit on tenure choice since people who live in cities while in employment find it difficult to get a comparable building for purchase in rural areas when they retire. Fourth, due to inherent risks in mortgage lending activities, the loan-to-value ratio imposed by lenders limit individuals building in less commercial centers of for own occupation. Fifth, cost of mortgage loan transactions from inception to mortgage loan closing is enormous. The high transaction fees drive away the low-income group who feel that such fees would have improved the stage of development on their sites.

Greater use of housing finance will come about as income rises, real lending rates fall, and mortgage institutions' risk positions allow higher loan-to-values. Structurally, as long as the economy continues to grow and remain stable, mortgage institutions and mortgage loan seekers are bound to change their attitudes about indebtedness, delinquencies and defaults.

Mortgage Banking activities in Nigeria

Mortgage activities in Nigeria rest squarely in the hands of the Federal Mortgage Bank of Nigeria who is in charge of the national housing fund for disbursement to all accredited primary mortgage institutions and accredited private estate developers.

(a) Primary mortgage institutions

A closer look at the activities of the Federal Mortgage Bank of Nigeria with respect to the primary mortgage institutions from 1997 to June 2003 is reflected in Table 3 below.

Table 3: Applications received and processed by FMBN between 1997 and June 2003

Year	Number of packaged applications received from primary mortgage institutions	Total number of applicants	Amount Requested (₦ 000)	Total number of beneficiaries	Amount Approved (₦ 000)
1997	1	7	1,538	7	1,230
1998	3	18	7,213	17	5,488
1999	11	244	193,980	221	149,194
2000	21	260	212,057	246	193,245
2001	16	1,408	807,623	1,382	745,011
2002	26	2,078	3,705,911	105	753,988
June 2003	5	63	137,355	62	95,726
Total	83	3978	5,065,677	3000	1,943,882

Source: FMBN Publications, 2003.

A closer look at the performance of the Federal Mortgage Bank of Nigeria as contained in Table 3 indicate that a total number of 300 individuals obtained mortgage loans within a period of 6 years. This translates into 500 approved loan applications per annum at an average rate of #647,960 approved sum per beneficiary. One important point to note is the gap that exists between the percentage of beneficiaries to applicants on one hand (75%) and amount approved to amount requested on the other hand (38%). If the basis of mortgage loan processing is the same for all primary mortgage institutions and the Federal Mortgage Bank of Nigeria, and 75% of the applications forwarded were approved, one would reasonably have expected that the same percentage of the sum requested (#3,799,257,750) was approved. One can safely then examine this phenomenon on whether the mortgage policy has very clear objectives on assisting Nigerians in the purchase or building owner-occupier houses and whether the public can see clearly who benefits from the national housing fund in terms of distributional considerations among Nigerians across the country as a whole.

(b) Private real estate developers.

Private estate developers' started to access the national housing fund in the year 2000 and in all, a total of 23,021 housing units were recommended for approval at a total loan sum of #27,239,149,160.47. Between 2000 and June 2003, that is, a period of three and a half years, only the sum of #3,067,305,237 was approved while only #967,700,000 had so far been released. A detailed breakdown of the activities of the private estate developers' business transactions with the Federal Mortgage Bank of Nigeria is analysed in Table 4 below.

Table 4: Applications received and processed by FMBN between 2000 and June 2003.

Year	Number of Private estate developers	Number of housing units planned	Loan amount requested (₦'000)	Loan amount approved (₦'000)	Loan amount disbursed (₦'000)
2000	1	16	120,000	99,556	- -
2001	6	1917	1,148,147	334,000	- - -
2002	19	9439	23,731,853	428,949	957,700
June 2003	22	11649	2,515,000	- - -	- - -
Total	48	23,021	27,239,149	3,067,305	957,700

Source: FMBN records, 2003

Within a period of three and a half years, private estate developers requested for a sum of #27,239,149,000 out of which the sum of #3,067,305,000 (i.e. 11%) was approved. Between year 2000 and 2002, only #957,700,000 was released out of the total sum of #3,067,305 approved. This figure represents 31% of the approved sum. It is also observed that although seven estate developers applied for mortgage loan in year 2000/2001, no disbursement was recorded for any of them. A situation where approved mortgage loans can not be translated into reality within 12 calendar months should be a course for concern to the Federal Mortgage Bank of Nigeria if there is an expectation of better and improved national housing collection from the populace. In the six months of 2003, no single application was considered and approved. For an organization in serious business, justification for their existence may be hard to substantiate because once the populace looses confidence in the ability of the institution to perform, monthly collections will automatically dwindle and the policy of housing the masses may fail.

Identified bottlenecks

For Federal Mortgage Bank of Nigeria to be relevant, certain sections of the National Housing Fund Decree 1992 No. 3 will need to be reviewed. First, Part 1 Section 4 stipulated “a mortgage institution which is in default of repayment for a period of three (3) months shall be refused further access to the fund”. This condition failed to be explicit on either partial monthly payment, non-payment, cumulative indebtedness accumulating and equal to 3 months arrears.

Part II Section 5(2) stipulates that a borrower must have a stable employment and satisfactory evidence of regular flow of income. This condition may have many interpretations as each mortgage institution outfit deems fit.

Part II Section 8(4) stipulates that 0.05% of the sum approved shall be charged as fee for services rendered. These services include legal, survey and administrative charges BUT exclude stamping, registration and other statutory fees. An approved mortgage loan application may be frustrated by the time the applicant is confronted with the fees payable for stamping, registration and other statutory fees as may be listed by the appropriate authorities may be beyond the reach of those concerned. Mortgage institutions should be able to package all these expenses neatly to put applicants in a better position and make the loan easily accessible.

CONCLUSIONS

Nigeria has been able to accumulate a huge sum of money for funding housing within the first six years of implementing the national housing scheme. There is however the need to sustain the tempo through the encouragement of the savings’ contributors. It was in the light of this paper assessed the acceptability of Nigeria’s National housing fund programme by the populace from the point of view of public participation, and in addition to evaluating the impact of the scheme on real estate development activities in the country as a whole.

The window of opportunity that the national housing fund scheme could create, if efficiently and optimally operated, is much because the housing sector has a number of multiplier effects on the national economy especially in terms of employment opportunities. To achieve maximum benefits accruable from the sustainability of the national housing fund, government should purge itself of the disobedience of its own law by ensuring that all public sector Ministries, Parastatals and Agencies register their staff under the national housing fund scheme. Also, the Federal Mortgage Bank of Nigeria should enhance its credibility by promptly considering loan applications forwarded to them and releasing the result in a manner that will show a high level of transparency. A situation where mortgage loan applications are not considered on time or funds are not released for beneficiaries on time, can frustrate individuals.

There is the need to consider the option of encouraging the young couples to embrace the idea of registering their interest for home-ownership in any part of the country where they are based right from the time of marriage so that they can save over a five year period and get an automatic allocation of a house of their choice on the payment of the required down payment through regular savings. In addition, there should be a provision for interested couples to set aside their own home with an additional payment to move into a bigger accommodation on request or in the case of a couple relocating to a better neighbourhood or another town or city, such a couple or individual should be able to trade in his old building for a new one at another location upon payment of an agreed sum on request. Through these means, Nigerians would be able to eradicate homelessness with ease over a short period of time and sustain the need of the young ones easily. Once the elderly people are proud homeowners and married couples are accommodated, we would have been able to compete globally with other nations that had been able to accommodate her citizens.

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