Options for Sustainable Mortgage Finance in Nigeria

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Abstract
The importance of housing as a basic human necessity cannot be over emphasized. According to the United Nations Centre for Human Settlements (UNCHS), an estimated 21 million new housing units are required each year in developing countries. Records show that Nigeria alone currently has a deficit of about 17 Million houses. Among the efforts aimed at alleviating the housing problem is the introduction of mortgage arrangements to make funds accessible for intending home owners in Nigeria. However, the mortgage sector in Nigeria is currently grossly underdeveloped. This paper focused mainly on exploring the options for making mortgage finance sustainable for the entire population. Using secondary data and well as undertaking a critical review of the existing housing finance framework in Nigeria, the paper identified the non-sustainability of mortgage finance in Nigeria as a problem on housing delivery. It also expound the causes of the non sustainability of mortgage finance in Nigeria as well proffer possible options towards achieving sustainability in this sub sector. Key suggestions is the restructuring of the apex mortgage institution, insurance of mortgage loans, removal of the land use from the Constitution so ease its amendment to evolving needs, and encouragements of more states/ agencies to contribute to the National Housing Fund.

Section 1: Introduction
1.1: Context
Of all the basic needs of mankind housing has been identified as the most basic needs of mankind for obvious reasons. –the others being for food and clothing. Also, housing is a very important durable consumer item, which impacts positively on productivity, as decent housing significantly increases workers’ health and well being, and consequently, economic growth for the country. Third, it is one of the
indices for measuring the standard of living of people across societies; thus, necessitating programmes of assistance from the government in the areas of housing finance provision of infrastructure and research so as to enhance its adequate delivery. Sustainable mortgage finance can go a long way toward breaking the vicious circle of poverty and corruption in the country. The focus on finance has, however, been very prominent for obvious reasons. This is because housing provision requires huge capital outlay, which is often beyond the capacity of the medium income/low income groups.

As earlier mentioned mortgage finance plays a critical role in the development process by supporting strong housing markets, while strengthening the financial sector and contributing to overall economic growth. With strong housing and housing finance markets come many economic and social benefits, such as greater consumer savings, more social and labour mobility, and increased investment. In addition, strong housing markets support job creation in construction and manufacturing, and they improve living conditions and basic infrastructure. The availability of finance also has social implications. The rapid flow of population to cities puts pressure on the housing supply, and where either new construction is unable to keep up with escalating demand or the lack of financing makes housing unaffordable, slums proliferate. Conversely, when mortgage financing is available, the market for housing grows, and a larger share of the population can become homeowners.

In recent years, the banking and economic reforms in the country have had stimulating effects on the mortgage industry. The improved prospects of long-term finance have raised the potential for enhanced housing delivery, home ownership and real estate development through mortgage financing strategies. Despite the improved prospects, Nigeria’s mortgage industry remains underdeveloped, as reflected in poor housing development and mortgage finance indicators. Underdeveloped mortgage industry in Nigeria is underscore by the fact that mortgage loans amounted to only 0.12 percent of Gross Domestic Product (GDP) in 2006, compared to 3 percent in Ghana, 5 percent in India; so far this statistics has not changed much. Recent revelations by the CBN Deputy Governor financial system stability, exposed the realistic grim state of the Mortgage Finance -(GDP) relationship in Nigeria vis-a-vis other countries, he pointed out at a stakeholders' meeting in Abuja, that “In Malaysia it accounts for 24.7 percent of GDP; 29 percent in South Africa; and 85 percent in New Zealand,” (This day September, 2011). However, it may be noted that most of these countries enjoy an average income that is higher than that of the average Nigerian.

The abysmal housing delivery in Nigeria is the consequence of interplay of several factors encompassing institutional, administrative, policy and cultural elements of our national life. These factors undermine the access and sustainability of mortgage finance in Nigeria. Questions of access and sustainability become more pertinent in the face of recent global financial crises and its impact on Nigeria. This raises policy issues of great relevance like what is the state of the mortgage industry in Nigeria? What institutional and policy factors contribute to the underdevelopment of Nigeria’s mortgage industry? How can these factors be ameliorated? What is the role of financing in the mortgage sub-sector? How can mortgage financing be improved? What can guarantee sustainable mortgage finance and opportunities Nigeria? Do we have laws that need to be amended? Are there new laws that we need to put in place? What lessons can we learn from other countries that had solved similar problems? The forgoing questions are what this paper seeks to address.

It is expected that the findings, especially the identified legal and regulatory gaps, will be of immense benefit to legislators. Following this introduction, section two of this paper will entail a look at the
conceptual framework and review of the relevant literature on mortgage financing industry in Nigeria; while an attempt is made in section three to review the housing market situation in Nigeria. In section four, we shall be looking at the various policy options to address the problem of sustainable mortgage finance in Nigeria. We shall be rounding off in section five with policy recommendations

1.2: Objectives of the Study
The report reviews the state of the mortgage sub sector in Nigeria especially, at how mortgage finance can be sustained thus contributing to housing development in Nigeria. Especially, four key dimensions of housing finance that affects the market include – housing availability, financial instruments and institutions, low-income housing and mortgage market infrastructure. Policy and reform options to improve the framework for housing finance will be discussed in the Nigerian context. In discussing mortgage finance in Nigeria, we are faced with a segmented market, which will be taken into account (given the income disparity of households).

1.3: Scope and Methodology
This research work will entail a mixture of both quantitative analysis, as well as a critical theoretical review of some legal cum economic policy impediments to sustainability of mortgage financing in Nigeria. Where required, data from the World Development Indicators (2011) will be used. Also some of the Statistics will be adapted from the World Bank Report.

1.4: Importance of the Study
Housing and housing finance build assets and livelihoods, and thus contribute toward poverty reduction in any economy. A sound mortgage finance system could provide benefits to the economy beyond development of a housing market and contributions to employment and growth. For example, instituting a sound property registration system would enable entrepreneurs to use their property as collateral for business loans. With transparent lending for housing, where risks can be measured and mitigated, financial institutions would be able to put capital that they might otherwise have held against residential mortgages to other productive uses, such as business lending. In addition, mortgage finance represents an important asset class in the financial sector—an asset class that could help develops a long-term finance market for other industries, including infrastructure development. With sound development of the mortgage sector, private sector on-lending for housing would free scarce government resources for other social and economic needs. Thus, the achievement of a sound, and sustainable mortgage finance, would contribute to financial sector growth and accounts for a size-able part of a liberalized financial sector and consequently, economic growth and development.

Section 2: Conceptual Framework and Review of the Literature

2.1: Conceptual Framework
The role of housing as a basic human need cannot be over emphasised, thus the housing sector plays a very crucial role in a country’s welfare and development as it directly affects the performance of other sectors of the economy. Also, housing is one of the important indices for measuring the welfare of a nation; because of its ability to improve the health and well being of its citizens and consequently improve the growth of the economy. Although various research has identified different various factors affecting the provision of affordable housing in Nigeria, the bulk of them have identified mortgage finance sustainability as the most significant, thus necessitating our zeroing in on X-raying the options for sustainable mortgage finance in Nigeria.
The bulk of the Housing finance services provided by the Nigerian housing sector, comes from the Primary mortgage industry (PMI); hence, to be able to appreciate the housing problem in Nigeria, it is pertinent that we try to have a good grasp of some of the key concepts involved.

**Mortgage:** A mortgage is a loan for the purchase of a real estate with the same property serving as the collateral. It is the most crucial means of financing real estate use by individual, businesses and government because it satisfies three major criteria – necessity, affordability and leverage.

A **primary mortgage industry/market** is the market where borrowers and mortgage originators come together to negotiate terms and effectuate mortgage transaction. Mortgage brokers, mortgage bankers, credit unions and banks are all part of the primary mortgage market. While a **secondary mortgage market** is a situation whereby after being originated in the primary mortgage market, most mortgages are sold into the secondary mortgage market. Unknown to many borrowers is that their mortgages usually end up as part of a package of mortgages that comprise a mortgage-backed security (MBS), Asset-Backed security (ABS) or collateralized debt obligation (CDO). It will suffice to state that the secondary mortgage market is not yet developed in Nigeria. Other concepts that are worth noting in the housing mortgage lexicon include:

**Property Lien:** A property lien is a legal claim on a tract of real estate granting the holder a specified amount of money upon the sale of the property. Such liens are often used to ensure the payment of a debt, with the property acting as collateral against the amount owed. A mortgage is the best example of a property lien.

**Possessory Lien:** Property that is in the hands of, or is possessed by, the individual who grants the lien. A lien is the claim that one person has over the property of another as security for the payment of a debt. In a possessory lien, the creditor has a right to remain in possession of the property under the lien until the debtor has satisfied his or her debt. For example, if an individual buys something on credit, the item will not be in his or her possession until the debt to the creditor has been paid.

Generally, the mortgage finance structure that can be found in most countries is either the fix rate for a lengthy period of time or the floating rate, overtime; the mortgage industry has proven to be a strong source of liquidity in most developed economy. The global financial crises can be traced to the beginning of the subprime mortgage crises in the US. However, one question that has always confronted most countries developed and developing (Nigeria inclusive) is how to shore up liquidity so as to make the mortgage finance system sustainable, especially given the bourgeoning housing deficit that is experienced by most developing countries (Nigeria inclusive); thus, the main thrust of this research paper.

In the course of this study, we shall be x-raying the issue that might ensure mortgage Finance sustainability such as macroeconomic (Interests rate, unemployment, wages) and every regulatory institutional and legal framework that can affect mortgage finance sustainability by yielding a bigger pool of fund available for housing provision. The mortgage industry is generally no well developed in emerging/developing economies. Evidence from the “maps of the world finance” on some major economic players below, as at 2002, shows that the Mortgage-GDP ratio; a measure which truly indicates the people’s participation in the mortgage business, is very low in the developing nations. So far, this trend has not changed significantly. Given the housing deficit, figures in Nigeria, one would know where we belong on this trend.
The important question thus is, how can a mortgage system be made more sustainable, so as to accommodate for the increase in population/demand for housing?

2.1.1: The Global Housing Problem

To understand the housing problem, it is pertinent that we have to first of all understand the theoretical underpinning cum factors that contribute to the global housing problem such as the -the demand and supply of housing, housing deficit as well as the factors that affect/influences them. Like any economic good, the demand and supply of housing is influenced majorly by the characteristic of the subject product. They include:

The effective demand for houses in the housing market is defined as the Total Number of households that are in need of a decent/affordable shelter for the sole purpose of living. It is determined by factors such as the households’ permanent income, the price of houses, the cost and availability of credit, householders’ preferences, investors’ preference and regulations.

On the other hand, the effective or total supply of housing refers to the total sum of houses that have being completely built, sole for the purpose of living in and are in the market for sale or rent. The total supply of houses at any time period comprises of the existing stock minus depreciation and new developments. New houses development is determined by factors such as the cost of inputs, price of existing stock of houses and the technology of production. These same factors influence the decline deterioration of the existing stock because they influence the decision to renovate. The cost of constructing a new house can be disaggregated into –Land acquisition cost, site improvement cost, labour costs, material costs, finance costs, administrative costs (or procurement costs) and marketing costs. It is pertinent if the cost of acquisition is high it creates a high hurdle that delays or slows new housing start. The supply (production) function Q of housing at time t, will be a combination of the supply of new and existing stock of houses, depicted as thus;

1. A house is a durable investment and consumption good. Thus, the existing stock is a very large percentage of available supply. The flow of new houses at any time is negligible. Houses that are used by owners and renters are classified as consumption good; while for others, they are investment goods that generate income.
2. A house can be classified according to location, age, quality, time and the uses to which it can be employed; hence, housing is a heterogeneous product.
3. A house is an immobile good and consumers must move to it rather than the good moving to them.
4. A house is a specialty product- There are high transactions cost associated with supply and demand for houses for both the producer and the consumer; because it takes a lot of time and money and skills to produce, and for the consumer it take a lot of time money and skills to move into.
\[ Q = Q( L^s, L^c, L^p, E^c, U, N/A, C, M, P). \]

Where:
- \( Q \) = Number of houses
- \( L^s \) = stock of land with outstanding planning permission
- \( L^c \) = constraint on future supply of land for housing
- \( L^p \) = planning policy for land release for private housing
- \( W \) = Wage rate relevant for construction (macroeconomic)
- \( E^c \) = Employment in the construction industry
- \( U \) = Represent unemployment rate (macroeconomic)
- \( N/A \) = Population density
- \( C \) = Construction per unit
- \( M \) = other materials
- \( P \) = Price of existing stock of housing (macroeconomic via the cost of borrowing for construction – interest rate)

Like in every economic good, it takes the interaction of market forces of demand and supply to ensure equilibrium. Barring the direct intervention of the government into the housing market, the general factors affecting the supply of housing in any economy include:

**Legislation:** The prevailing law on in any country /economy determines how land, a vital resource for provision of housing is acquired. If the prevailing law is littered with bureaucratic bottlenecks, it will hamper the rate of development of the housing sector.

**Taxes:** The imposition of value added taxes on building construction at every stage from building to completion; in some cases these taxes amounted to about 20% at the cost of a building programme. This also had adverse effect on the supply of housing.

**Macroeconomic stability:** The rate of inflation has a negative impact on the savings and investments necessary to produce houses. High and persistent, makes nominal interest rates high and thus the real cost of credit/capital very high. And when homes are not affordable, the effective demand for mortgage finance will be low. Others include:

**The lack of a Credit Database:** to provide credible information on those intending borrowers for construction.

**Lack of mortgage Insurance:** in this way, lenders will be able to offer credit to home buyers, also secondary market for mortgage securities can only be established when there is as such a guarantee. Local and foreign capital can then flow into the housing sector.

**Technical Know How Gap:** the knowledge and skill available in mortgage banking finance, building construction, estate management and town planning in any economy determines the volume of houses that can be injected into the housing market at any given time.

**Contracts enforcement:** every mortgage transaction comes with the probability of default / repossession/foreclosure. The right of creditors to foreclose a home is not determined without the backing of the court. It is a well known fact that enforcing rules through the courts are expensive and time
consuming. The longer a default last, the more costly it will be to the lender, thereby serving a disincentive to lend.

(vii) Cost of Building materials: This is more impacting when the country is an import dependent economy.

Infrastructure: This is another very important factor, most urban dwellers in tend to provide their own municipal services such as water supply, electricity, drains and waste disposal. All of these bloat the housing development cost.

2.1.1.2: Housing deficit
Housing deficit is the difference between the numbers of houses available (that is the supply of housing) and the total number of houses needed (i.e. the demand) for houses in an economy. When the demand for housing is greater than the supply of houses in an economy we say there is a housing deficit. Currently most developing countries in the world are experiencing a huge deficit in decent and affordable shelter for their citizens. Housing shortages or deficit are mostly a concern of the middle or low income groups. According to a World Bank (2010) this, this is as a result of rapid population growth, increased urbanisation, high income inequality, and displacement of people by conflicts and disasters. The reports also points out that there is a shortage of about 38 million housing units in the south east Asian region, taking into cognisance the average household size, this translates into about 212.5 million homeless people.

According to the United Nations Centre for Human Settlements about 1.1 billion people are living in inadequate housing conditions in urban areas alone, an estimated 21 million new housing units were required each year, in developing countries, to accommodate growth in the number of households between 2000 and 2010. 14 million additional units would be required each year for the next 20 years if the current housing deficit is to be replaced by 2020 (UNHCS). Thus it can be seen that the quest for decent and affordable housing is not just a Nigerian problem, but one confronting the bulk of the developing countries.

2.1.2 Global Approaches towards addressing Housing problem
One of the long-term hurdles posed by unprecedented urbanization in the developed but most severe in developing countries is the provision of adequate housing. All over the world, various governments (Nigeria inclusive) have adopted various approaches in the past towards addressing the housing problems of her citizens.

One of the ways of providing housing finance has been through traditional mortgage lending by commercial banks. Generally, banks have been major providers of housing finance in most countries despite the fact that, their services have been limited to the upper income group and those formally employed. Its major drawback is that in most state-owned commercial banks, there have always being, a history of inefficiency subsidies and bad mortgage debt.

Another competing means, by which some people secure housing finance, is via State owned Specialised Housing Banks. These are primarily meant to fill in the gaps left by the commercial banks mortgage lending especially for low- middle income groups. Most developing countries such as India, Bangladesh, and Mexico especially the south Asian countries have founded state-owned housing banks which usually enjoy privilege terms and funding. According to the World Bank (2010) Housing report these banks have
been inefficient in terms of operating cost and delays. They have failed to reach the lower-income groups or people who are informally employed. The same study find the Bangladeshi state housing bank beset by a poor governance structure, misaligned operational incentives, high non-performing loans and ill targeted government subsidies.

In recent times, the Private Specialized Mortgage Lender/(ing) are beginning to play a pivotal role in housing finance. This is borne out of a response to the residual excess demand for home funding. As a result, many innovative private sector specialized institutions have emerged, extending the housing market down the income scale. This has come in the form of **Low income Finance -“the power of micro finance”** in the case of Bangladesh. In response to the remaining excess demand for home funding, many innovative private sector specialized institutions have emerged, extending the housing market down the income scale.

The microfinance sector has expanded into housing from the low-income band where they lend for home improvement instead of home purchase. Micro finance is well developed in Bangladesh, and is picking up steam in other developing countries such as India; the same can be said of Nigeria. Beginning in 1987 when, Graemen (Nobel Price winner) first introduced first housing loans following the flood of that year, MFI have made progressive entrance into servicing the finance market. As at 2010, the Graemen housing portfolio stood at $ 3.3 Million with 89 percent repayment rates. In this time period, it has financed 674,435 homes. Loans are usually for a very small amount, maturity is only for few years, interest rates are relatively high, and repayment is guaranteed by a community group approach. Collateral is typically not required. Repayments are made weekly.

This initiative has being very responsive to the specificity of the needs of low-income groups, amongst which are the lack of formal documentation, or even title to the land; irregular earning that are difficult to document, cultural, religious and gender constraints. However, the lack of a level playing field for funding that is pervasive in most developing countries with the system has made it unsustainable. In countries such as Pakistan, funding disadvantages have eliminated the specialized housing finance sector, including companies like Asian Housing Finance Limited, Citibank Housing Finance Company and International Finance Limited (World Bank, 2010).

Islamic Housing Finance is one of the fastest evolving housing mechanisms in some developing countries with Islamic legal framework. One major characteristic of this model is that it often targets customers with lower than average income. This system is common in Pakistan and to an extent in Bangladesh. The most popular Islamic housing finance product is diminishing musharakah, a declining balance/shared equity partnership. With this product, both parties share the risk and obligation related to the property. Here, ownership is divided into equal units and is purchased regularly by the customer. Under this arrangement, leasing and selling contracts must be conducted separately. It entails the a consumer selecting a house, and obtain approval for financing. The financier and the consumer then jointly buy the house and obtain joint ownership through a musharaka agreement. The consumer leases the house from the financier and eventually buys out the financier’s equity, hence getting sole title to the property. It has shared some of the characteristics of a lease-buyback system, only that its terms are strictly Islamic. A typical example is the murabaha system, where the bank buys the property and resell it to the client at a mark -up, owning the property outright until final payment by the client. This arrangement offers the bank a level of security not available with traditional mortgage. In developing countries, like Nigeria there is a potential for Islamic Housing Finance. However, it is amazing that even in countries where it has been used, it has not played much role in lower and middle income home financing. Nigeria can borrow a lesson from Bangladesh.
The most common means of housing finance is the Informal housing Finance. This is common amongst rural dwellers and those with irregular or informal income, and have little chance of securing from the formal financial system. These groups fund their homes through savings and borrowing from the informal market including family and friends. Most businesses and home owners in developing countries, Nigeria inclusive rely almost entirely on friends and relatives. The limitation of borrowing from informal sources is that sometimes it attracts some delinquency.

Another approach used by various governments worthy of mention is Direct Government provision of low cost housing: as the name implies, this is a situation whereby the government provide houses at low cost- some example in Nigeria include – The Malali Low-cost Housing in Kaduna.

2.1.3 Mortgage finance and the sustainability Question
The global paradigm shift from direct public provision of housing to the enablement of private shelter initiatives and housing production, that characterises the housing sector in the past four decades led to the creation of schemes such as the Federal Housing Administration (FHA) in the United State and some countries and the National Housing Fund/Federal Mortgage Banks in countries like Nigeria. The main role of the FHA in the US was to insure loans made by banks and other private lenders for home building and home buying. On the contrary this was the case with NHF/FMB in Nigeria, whose primary role was to facilitate the mobilization of the fund for the provision of houses for Nigerians at affordable prices. The overall aim despite the difference in approach is sustainability of mortgage finance, which is very important.

A mortgage finance system is said to be sustainable if at any given point in time, it has a pool of funds that can accommodate for the borrowing needs of prospective home buyers. These are very important given the global population expansion couple with high urbanization that comes with increased housing demand.

The goals of the FHA are to improve housing standards and conditions, provide an adequate home financing system through insurance of mortgage loans, and to stabilize the mortgage market. Primarily, it was not a mortgage lender but a mortgage insurer. The creation of the FHA successfully increased the size of the housing market. By convincing banks to lend again, as well as changing and standardizing mortgage instruments and procedures, home ownership has increased from 40% in the 1930s to nearly 70% in 2001. Mortgage insurance protects lenders from mortgage default. If a property purchaser borrows more than 80% of the property's value, the lender will likely require that the borrower purchase private mortgage insurance to cover the lender's risk. If the lender is FHA approved and the mortgage is within FHA limits, the FHA provides mortgage insurance that may be more affordable, especially for higher risk borrowers.

As the capital markets in the United States matured over several decades, the impact of the FHA decreased. In 2006, FHA made up less than 3% of all the loans originated in the US leading to some criticism. However, the subsequent deterioration in the credit markets, has somewhat muted criticism of the agency as today, the FHA now backs over 40 percent of all new mortgages. Following the Subprime mortgage crisis, FHA, along with Fannie Mae and Freddie Mac, became the source of much of the United States mortgage financing. The share of home purchases financed with FHA mortgages went from 2 percent to over one-third of mortgages in the country as conventional mortgage lending dried up in the...
credit crunch. Without the subprime market, many of the riskiest borrowers ended up borrowing from the FHA.

What is evident from the examination of all of the above approaches to housing finance provision is the lack of sustainability of the mortgage finance system as well as the inadequacies of most of the system. This leads us to do an examination of the Mortgage finance system obtainable in Nigeria and to examine how sustainable it is.

2.2 Literature Review

The literature on housing delivery in Nigeria is one that has received a sizeable attention for some time. The housing delivery system in Nigeria is a mix of many interrelated components which include, land, infrastructure building materials, policies, building regulations and importantly the Finance component of it Adebamowo et al. (2012). Scholars such as Oniobokun (1985) and Ebie (2003) have pointed out the excessive impact of the higher rents paid in Nigerian urban cities on their disposable income; both point out that the average Nigerian worker spends about 60% of his disposable income on house rents. By extension, this definitely will have adverse effect on their quality of life and thus productivity. This is by far higher than the recommendation of the United Nations of about 20-30%.

In his work on Mortgage finance, Omole (2001) opines that financial institutions should be made more accessible to the people. Against this backdrop on the importance of mortgage finance that governments most introduce ways to improve the prevailing housing and housing policies. Some of these researches points out amongst others, the need to strengthen the cooperative housing system in Nigeria (Fasakin: 1998).

Different scholars have varied positions based on the aspect of the housing problems they have tried to examine, Omorin (1998) looked at accessibility of land and low income housing in Lagos. Her conclusion is that the lack of finance and the escalating cost now takes precedence over land accessibility. Williams (2002) opines that access to housing produced by the government is still out of the reach of the urban poor who simply cannot afford the financial resources need to purchase these housing units. This calls to question the success or otherwise of the NHF/ national Housing Policy, which has being the bedrock of government’s housing policy. In their work Jaiyeoba and Amole (2002) recognized the shortage of soft loans as one of the major hurdles against the provision of urban housing in Nigeria.

In an attempt to proffer solutions to some of these problems, Ogu and Obuozobe (2001) argue for the creation of an enabling environment, including support of housing initiatives and investments by householders, small-scale providers, and entrepreneurial private firms. Their study also identify the implications of having an enabling strategy for housing finance, access to land, residential infrastructure, institutional regulations and building materials and related industry mostly in the light of the need for the private sector to play greater roles in housing.

Recently, while attending a stakeholder’s discussion session, organized by the World Bank and the CBN, the minister of Housing, Lands and Development, Ama Pepple pointed out that currently, Nigeria has a housing deficit of about 17 million which needed about 60 Trillion Naira to fix so as to provide of adequate housing for all Nigerians. Also, buttressing this need for a robust mortgage finance apparatus in Nigeria, the CBN deputy governor financial systems stability pointed out that some of the major challenges of the sector in Nigeria which according to him includes dearth of long-term funds, absence of
mortgage refinance/liquidity, weak capital base, and inadequate branch network of primary mortgage institutions (This day, September 1, 2011).

It is thus evident from the foregoing that mortgage finance is not just the important factor in housing delivery in Nigeria, but the sustainability of the mortgage finance system is. It can also be noted very few studies have explicitly explored the options for sustainable mortgage finance in isolation of other factors that may be responsible for the poor provision of housing in Nigeria, which is the main thrust of this paper. Also, of the few research that has being carried out in this area none has focus on the options for sustainability of the mortgage finance system in Nigeria.

Section 3: Mortgage Financing in Nigeria

Any attempt to appreciate the nature, strength and weaknesses of mortgage finance in Nigeria, must begin with an understanding of the extent of the Housing problem in Nigeria as well as Government’s the National Housing policy in Nigeria an attempt to solve the problem.

3.1: Housing Problems and Housing Deficit in Nigeria

It is evident that there is an acute shortage of housing in Nigerian cities and towns. As at 2010, Lagos had an average of 3.8 per square room, coupled with severe density ranging between to about 5-7 persons per room (Omrin, 1998); Housing problems in Nigeria are compounded by a combination of factors. Most of the houses in Nigeria are in squalid and uninhabitable conditions. Extra housing is needed to alleviate the problem of overcrowding in Nigerian urban centres. Thirdly, natural increase in population requires additional housing units to house the increasing population. Fourthly, the massive rural-urban migration which has spiralled out of control in the last three decades has worsened the housing demand in urban centres which is not made even worse due to a lack of equilibrating supply of decent and affordable houses.

The 2005 World Bank Development Report on Nigeria points out that 31% (43.4 million) out of which only 10% (4.3 million) are engaged in an organised private sector. Approximately 60% of the working class is the middle and lower classes and more than 70% of them(1.81 million) cannot afford houses that cost more than N5 million. This statistical trend has not changed significantly since 2006. This amount will not be enough to purchase a decent real estate in most cities in Nigeria. The government’s inability to achieve its dream of housing for all by year 2000 is a pointer to the fact that we need a mortgage finance framework that is sustainable with a strong financial base that can absorb the housing need and to progress as a nation in terms of housing provision for the citizenry and its consequent positive impact on economic growth. Also, as we approach 2015 for the realisation of the Millennium Development Goals, the need for a more robust, functional and sustainable mortgage finance system is a conditio sine qua non. Speaking at a stakeholders round table discussion, organized by the World Bank and the CBN, the minister of housing, lands and development, Ama Pepple pointed out that currently, Nigeria has a housing deficit of about 17 million and that it was going to cost Nigeria about 60 Trillion Naira for provision of adequate housing for all Nigerians. Pointing out that this was only an average conservative cost of N3.5 million Naira per unit. With an estimated national population of about 150 million people, rising population growth rate, growing urbanization as well as increased demand for sustainable housing across the country the problem can only get worse in nothing is done to begin to address this issue.
The Association for Housing corporations of Nigeria, project that base on the 2006 census, that at least 200,000 dwelling units should be provided annually throughout the country so as to close the housing deficit; and that government authority should produce at least 10,000 housing units annually so as to close this housing deficit gap. An erstwhile UN report on housing in Africa did not present a positive picture on the housing provision subject due to population growth and urbanisation. The United nations Committee on Housing, Building and Planning (2005), reported that only very little progress has been achieved in the area of housing provision in Africa (Nigeria inclusive). The United Nations Development Decade (1960-1970) states that over 100 million people in Africa, Asia and Latin America and about half the population of this population were either homeless or living in poor quality housing.

The world Banks projection puts the number of housing units needed to accommodate the teeming urban population in Nigeria by the year 2000 at 8 million. Definitely, eleven years past this mark means that this number will now be far higher, owing to spiralling level of urbanisation.

Secondly, Poverty derived mainly from low income (earning) also affects the size of the mortgage market. This apparent characteristic of the Nigerian economy is reflected in the income inequality that is not just high but has being expanding since the 1970’s. This is evident from the Nigeria’s GINI Inequality Index (see appendix2) below. In many occupations and economic sectors incomes are extremely poor. Though, the government’s proposition/policy that the provision of improved housing to households with low income will increase their income and thus reduce their poverty, the reality is that most households are so income poor such that they cannot fall into the subsidise government controlled market. A three bedroom flat an FHA estate costs close to 9.5 Million Naira.

| GINI Income Inequality Index in Nigeria |
|---------------------------|---------|
| Year | Index (in %) |
| 1986 | 38.68 |
| 1993 | 44.95 |
| 1996 | 46.5 |
| 2004 | 42.93 |

**Source:** World Bank Development Indicators 2011

In Nigeria, housing finance reaches the upper income population groups, and the main challenge is to expand access to the middle and lower income groups, developing housing and housing markets finance that are sound and accessible to all irrespective of their income level (the World Bank income inequality index shows the massive disparity). Complex factors that include the rapid increase of land prices in the past decades, and poor legal infrastructure, deficient financial systems, a shortage of long term at fixed / reasonable rates have all contributed to Government’s inability to provide enough housing for her citizens. Others include limited developer finance and problematic access to housing finance for low income, rural and informal groups. This then means that any approach towards solving housing provision must be income group sensitive. Under the current rules a buyer via the NHF will have contributed to the Fund for up to 6 months and will be required to pay 30% of the asking price (roughly N3.2 Million) to a PMI, before applying to FMBN for the remaining balance of about 6.3 million naira. Most heads of household, including those on double income (husband and wife on employment) cannot afford this.

Basically, the demand for home ownership in Nigeria is constrained by amongst other things, high income poverty/inequality. Empirically, with a GDP per capita of about US$1,20( 2011), while the
average cost of a sizeable house is about US $41,000, the market for home ownership is evidently limited. A necessary condition for the housing sector to grow is that the economy itself has to grow (a good example is the US, where economic growth has most times being accompanied by growths in the mortgage industry and vice versa). Thus, for the mortgage industry to grow, the economy itself has to grow and faster than the growth rate in the housing sector. It is thus evident that only a fraction of the population (the upper class) can afford a home without first having a huge savings or borrowing. Hence, mortgage financing is a huge source of growing the housing supply, if the supporting environment is in place. Against this backdrop, the questions confronting the mortgage industry now are;
What can be done to increase the size of the available mortgage finance, so as for more people to have access to it? How can land be made more accessible to people since titling may also have an impact?

3.2 The National Housing Policy of Nigeria
Like most concerned governments of the world, the Federal government of Nigeria has made several attempts at making housing affordable to its citizens. Some of these revolve around the prevailing National Housing Policy and can be traced back to the pre independence era.

The first attempt at addressing the housing needs of Nigerians and the mortgage finance sub sector in Nigeria can be traced to the pre independence establishment of the Nigerian Building Society in 1956 by the Common Wealth Development Corporation (CDC). The CDC’s advance share capital of £81,625,000 was the vehicle use for this capital investment. Owing to its inability to perform it statutory function, the Building Society went aground in the early 1970’s. This led the Federal government of Nigeria to inject N20 million into it and changing its name to the Federal Mortgage Bank of Nigeria (FMBN). Due to the prevailing excess demand for housing, the FMBN was unable to meet up with the pressure on demand. As at 1970, the outstanding application stood at N223.8 million and available funds stood at N127 million, signifying a demand-supply ratio of 2:1. By 1986, this had deteriorated to a raio of 4:1. By this time, the outstanding application had risen to N465.8 million and only N105.3 million was available. The bank was never able to meet up with the demand.

In 1973, in another bid to boost the delivery of houses to Nigerians, the Federal government enacted the Federal Housing Authority Act. The functions of the authority included:

(a) The preparation and submission from time to the government of proposals for national housing programmes;
(b) The making of recommendations to the government on such aspects of urban and regional planning, transportation, communications, electric power, sewerage and water supply development as may be relevant to the successful execution of housing programmes as approved by the government and
(c) The execution of such housing programmes as may be approved by the government.

The powers of the authority included:

(i) The acquisition, holding and managing of movable and immovable property
(ii) Acquire, construct and maintain dwelling houses, school, communal and commercial buildings and other structure.
(iii) Entering into contracts for the construction, maintenance, management or repairs of any property

The 1978 land Use Act though not exclusively borne out concern for housing delivery; it had components of it which were meant to facilitate accessibility to Land, a key factor in housing provision in any country.
In 1978, the Federal Mortgage Bank (FMBN) Decree No7, of January 1977, a direct government intervention to accelerate its housing delivery programme came into effect. The expectation was that the FMBN is will expand and coordinate, mortgage lending on nationwide basis. It was created to serve as the apex and whole sale housing finance institution in Nigeria. The failure of thee FMBN over the years, coupled with acute shortage of housing would eventually lead to the promulgation of the National Policy on Housing in 1991.

In its quest to encourage employers of labour to use part of their profit to provide housing for their workers, the government enacted Employee Housing Scheme (special Decree of 1979). The then Decree required that employers of labour with not less than 500 workers in their employment in any state of the federation or state may be designated as such by the federal commissioner (now minister) with the approval of the federal executive council to establish a housing scheme for their employees. The decree further stresses that not less than three quarter of the housing provided by the scheme shall be for employees who are not executives or senior staff. Nevertheless, (Agbola, 1995) noted that the failure of this scheme was due to poor monitoring by the division responsible in the ministry of labour.

In 1991, the National Housing Policy was launched by the federal government of Nigeria so as to ameliorate the housing plight of her citizens. Both the National Housing policy and the NHF Decree of 1992 were promulgated to strengthen housing finance in Nigeria. Their working legal frame work can be found in the Mortgage Institutions Decree 53 of 1989. This is spelt out in its goal, objectives, strategies, institutional framework, land and settlement development policy and other developmental features inherent in the policy. The aim of the National Housing policy is to ensure that all Nigerians own or have access to decent housing and accommodation at affordable cost by the year 2000 A.D in an attempt to achieve this goal, the government pursued the following policy objectives.

i. Encourage and promote active participation in housing delivery in all tiers of government
ii. Strengthened institutions within the system to render their operations more responsive to demand
iii. Emphasise housing investments which satisfy basic needs
iv. Encourage greater participation by the private sector in housing development.

In 1992 the NHF Decree now Act was enacted. The main thrust of this decree now Act, was to accelerate the development of financial intermediation within the housing delivery system. At the same time, the overall objective of the Fund is to extend home-ownership further down the ladder and thereby triggering a positive impact within the economy. The objective was to put an end to government interventions such as direct construction of houses that had over the years proved to be an exercise in futility. The Fund was to protect the housing finance system from the prevailing inadequate long term funds that had mired the expansion of the lending services for decades via mandatory regular contributions by individuals and corporate bodies designated in the Act.

In 1992 there was the enactment of the Federal Mortgage Bank Act. Though, this was an amendment of the 1977 Act, given its powers to function as the sole authority responsible for the collection, management and administration of the NHF as provided in Section 7, Act No 3 of 1992. Amongst others, its principal function included – The provision of long term credit facilities to mortgage institutions in the country, the encouragement and promotion of mortgage of development of mortgage institutions at state and national levels as well as the Supervision and control of mortgage institutions.

The credit policy for Commercial and Merchant Banks before the NHF Act of 1992 was one of the ways through which the federal government through the Central Bank of Nigeria encouraged Commercial Banks to support the development of the housing sector in Nigeria. As pointed out by (Onabule, 1990), before the advent of the NHF Decree, the commercial and merchant banks always had a significant
proportion of their mortgage assets within the formal lending sector. (The CBN, via its credit policies required commercial and merchant banks to allocate a stipulated minimum proportion of their credit to the housing/construction sector. This percentage was about 13% in the late 1980’s (CBN Economic and Financial Review 1990). However, with the Financial Liberalisation and deregulation of the 1990’s the preferential status that was given to the housing and construction sector was terminated, thus impacting on availability of funds for mortgage financing.

Another government effort was the government mortgage policy on commercial and mortgage insurance company fund. Like banks, because of their huge base of funding and long term liabilities, they too are well positioned to providing housing finance. Preceding the enactment of the National Housing Fund Decree, it was obligatory for insurance companies to invest not less than 25% of their life funds in real estate. The aim of this was not satisfactorily achieved as it was not complied with by these companies as there were many other alternative investments into which they could invest policy holders fund and achieve better returns on investments. Thus, it is evident that though, funds from insurance companies have the potential to enhance mortgage financing in Nigeria if well utilised and restructured, and the government’s aim was not achieved.

From the above analysis, it is thus evident that not all government policies on housing provision were based on shoring-up the mortgage finance pool, thus necessitating our examination of the mortgage finance structure in Nigeria with a view to X-raying options that can make it sustainable over time. This will necessitate an examination of the evolution and the current mortgage finance structure in Nigeria.

3.3. Mortgage Finance structure in Nigeria

Because of its capital intensive nature, the focus of the relatively recent programmes by the government has mainly been on how to ensure a steady flow of finance into the housing provision scheme; given the huge capital outlay required which in most cases cannot be afforded by the medium/ low income groups and may not be sustainable given the size of the population involved and the explosion of this. However, to understand the mortgage finance structure in Nigeria, it is pertinent that we first of all get the different methods of mortgage finance in Nigeria Currently, the structure of housing finance in Nigeria can classified into the following:

(i) Formal Sector( Non-specialised Institutions and specialised housing Institutions)
(ii) Informal Sector also known as ESUSU( i.e. Traditional co-operative system, credit Cooperative and Family system
(iii) Others (i.e. Communities, Associations and Non-Governmental Associations).

3.3.1: The formal sector

The operation of the formal sector can be sub-classified into Non- specialised Housing Funding Institutions and the Specialised Housing Funding Institutions

3.2.1.1: Non Specialised Housing Funding Institutions

(i) National Housing Fund NHF:

This was put in place in 1992, following the promulgation of the NHF decree No.3 of 1992 as a mandatory contributory scheme to marshal out cheap and long term funds for housing credits. The Fund represented the financial component, of the then new National Housing Policy, which was adopted in 1991. Fundamentally, it was a legal re-affirmation of the vital aspects of the National Housing Policy with the intention of supporting to achieve its ultimate goal of housing for all by the
According to Mabogunje (2004) its main concept is to make private sector the main source of housing fund. Section 2 of the Decree (currently Act) offers six essential aims and objectives which covers the roles of individuals as well as corporate bodies:

- Ensure the constant supply of loans to build, buy or improve residential houses
- Facilitate the provisions of houses for Nigerians at affordable prices;
- Provide incentives for the Capital Market to invest in property development;
- Encourage the development of specific programmes for effective financing of housing development, in particular low cost housing for low income workers;
- Provide proper policy control over the allocation of resources and funds between the housing sector and other sectors of the economy; and
- Provide the long-term loans to mortgage Institutions for on-lending to contributors to the Fund.

Other contributors to the fund were the insurance companies, commercial and merchant banks and the federal government.

COMMERCIAL BANKS AND INSURANCE COMPANIES:

Section 2 of the Act No 3 of 1992, make Commercial Banks and Insurance companies contributors to the Fund. Section 5 (1)&(2) of the Act mandated every Bank to (invest) contribute 10% of its loans and advances at an interest rate of 1% above interest rate payable on current Accounts by Bank(s); while every registered Insurance Company shall invest (contribute) a minimum of 20% of its non-life funds and 40% of its life funds in real estate development of which not less than 50% shall be paid into the Fund through the FMBN at an interest rate not exceeding 4%.

CONTRIBUTIONS BY EVERY NIGERIAN

The Act also made every Nigerian earning an income of N3,000.00 or more per annum whether paid employee or self-employed person a contributor to the Fund. Each individual is required to contribute two 2.5% of his/her monthly salary to the Fund. Individual contributions by employed persons are to be deducted by their employers and remitted to FMBN monthly. Self-employed persons are to remit their contributions directly to the Bank within one month.

Contribution by the Federal Government

Section 6(1) provides that: the Federal Government shall make adequate financial contribution to the Fund for the purpose of granting of long-term loans and advances for housing development in Nigeria, while Section 6(2) provides that the Federal Government may also make available such other sum either in naira or foreign currency to the Fund as it may consider necessary.

3.2.1.2: Specialised Housing Funding Institutions

Specialised institutions: This includes specialised institutions such as mortgage banks (semi government agencies) and building societies. They include:

(i) Federal Mortgage Banks of Nigeria (FMBN);

This came into existence in 1978, following the promulgation of the FMBN Decree No7 (now Act), Of January 1977 and amended as No 82 of 1993; as a direct government intervention to accelerate its housing delivery programme. The expectation was that the FMBN is will expand
and coordinate, mortgage lending on nationwide basis. It was created to serve as the apex and whole sale housing finance institution in Nigeria. FMBN is the sole authority responsible for the collection, management and administration of the NHF as provided in Section 7, Act No 3 of 1992. Amongst it responsibilities of the FMBN
(a) The provision of long term credit facilities to mortgage institutions in the country.
(b) Encouragement and promotion of mortgage of development of mortgage institutions at rural, state, and national levels
(c) Supervision and control of mortgage institutions in Nigeria
(d) Mobilisation of savings particularly through the national housing fund
(e) Promotion of investment in the manufacture of building materials and promotion of research on construction and mortgage finance.

AFORDABILITY TEST

There are conditions for the loan. To qualify for housing loan, individual contributors to the NHF must pass the “Affordability Test”. The applicant must satisfy the following conditions to pass the test:-
I. Contribution to the NHF for a minimum period of 6 (six) months.
II. Salary of the contributor.
III. Age of the contributor.
IV. Years left in service (if employed).
V. Ownership or availability of registered land with C of O which will serve as security.

However, below is FMBN affordability Table on the National Housing Fund (NHF) with loan amount at six (6) percent interest rate.

PERFORMANCE ANALYSIS OF THE NHF OPERATIONS:

As at November, 2008, NHF operational results show when compared to the performance statistics prior to the advent of the housing reforms in 2002 are as follows:-

Table 2: STATISTICAL ANALYSIS OF PERFORMANCE OF NHF OPERATIONS:

<table>
<thead>
<tr>
<th>S/No</th>
<th>Performance Head</th>
<th>Year 2001</th>
<th>Year 2008</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Contributing states</td>
<td>3</td>
<td>24</td>
<td>88</td>
</tr>
<tr>
<td>2</td>
<td>Registered Contributors</td>
<td>1,885,686</td>
<td>3,423,056</td>
<td>46</td>
</tr>
<tr>
<td>3</td>
<td>Refund to contributors</td>
<td>₦50.6m</td>
<td>₦663.7m</td>
<td>93</td>
</tr>
<tr>
<td>4</td>
<td>No of beneficiaries</td>
<td>9,948</td>
<td>44,252</td>
<td>78</td>
</tr>
</tbody>
</table>

Source: FMBN, 2009

The number of participating states as recent as 2009 was not more than two –thirds of the states in Nigeria. Also, in a country with a housing deficit of circa 17 million, having about 3.5 million registered contributors’ calls to question the efficiency of the system!
Table I: AFFORDABILITY TABLE ON THE NHF
FEDERAL MORTGAGE BANK OF NIGERIA

<table>
<thead>
<tr>
<th>AFFORDABILITY TABLE ON THE NATIONAL HOUSING FUND (NHF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOAN AMOUNT AT SIX (6) PERCENT INTEREST RATE</td>
</tr>
<tr>
<td>Tenor: (Years)</td>
</tr>
<tr>
<td>5</td>
</tr>
<tr>
<td>Loan</td>
</tr>
<tr>
<td>Amount</td>
</tr>
<tr>
<td>(N=)</td>
</tr>
<tr>
<td>50,000.00</td>
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<td>100,000.00</td>
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<td>250,000.00</td>
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<td>4,250,000.00</td>
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<td>4,500,000.00</td>
</tr>
<tr>
<td>4,750,000.00</td>
</tr>
<tr>
<td>5,000,000.00</td>
</tr>
</tbody>
</table>

1. NHF – Affordability is limited to the amount that one-third of the monthly income can service as monthly loan repayment.

2. For loan Eligibility – Divide monthly income by three (as not more than one-third of Borrower’s income can be devoted to the loan repayment) and then divide the answer by the repayment factor of the chosen repayment period (shown on the repayment table).

Sources: FMBN, 2008.

(ii) Primary Mortgage Institutions (PMI): this was created by the promulgation of the Decree No 59 of 1989, as part of the National Housing Policy which provided the regulatory framework for the establishment and operation of primary mortgage institutions (PMI) by
private entrepreneurs. The PMI became the top institution that regulates primary mortgage institutions. Their aim was to enhance private sector participation in housing Finance.

(iii) The Federal Mortgage Finance Limited – Established in 1993 to execute the retail aspect of mortgage financing and provide credible and responsive housing finance services, while FMBN became the nation’s apex mortgage lending agency.

(iv) State/Municipal Government Financing: Most states and municipal government has being have being known to be involved in mortgage financing, tough on a small scale, and this is mainly through their budgetary allocation and is sometimes complemented with internally generated revenue.

3.2.2: Informal Sector
The informal sector of housing finance in Nigeria includes the traditional Esusu credit co-operatives, family savings and individual savings system. This sector is often local and informal in terms of organisation, and is mostly based on trust, love and friendship. It is difficult to quantify this sector as they mostly operate on transfer of cash and kind (most times sheer donation of skill/labour). These include the donation of building materials, land and cash. Sometimes it could be in the form of a loan, it also involves direct labour assistance.

4.0: Analysis of the Nigerian mortgage Arrangement
From our findings, the inability of the various government schemes to meet or close its current housing deficit of about 17 million speaks to the fact that the problem of non sustainability of mortgage finance is real. It also raises questions such as, does the absence of an effective secondary mortgage to keep refinancing mortgages affects sustainability of mortgage finance in a country like Nigeria? Is there any problem with the existing legal framework on mortgage financing in Nigeria? Is the difficulty of land titling and its legal framework, and its attendant bureaucratic (transaction cost) also affecting the sustainability of mortgage finance in Nigeria? It is the non-sustainable nature of the current mortgage finance system in Nigeria that has shown to be more pronounced in making the provision of housing for the populace difficult, especially in the case of long term credit.

4.1. Problems of sustainable mortgage Finance
From our experience as a nation and from statistics mentioned elsewhere, it is evident that government’s effort to make available/supply affordable homes has not being a success. One of the major problems facing the Mortgage industry is the non sustainability of mortgage finance. This can be traced to the following factors:

i The weaknesses of the legal/economic framework of the NHF and FMBN Acts.
However, to be able to analyses this we need to have a second look at some of the features of both laws.

Over centralisation of the function of collection, management and administration of the NHF: the Act made the FMBN is the sole authority in charge of the collection, management and administration of the NHF as provided in Section 7, Act No 3 of 1992 which provides that “The Fund shall be managed and administered by the Bank (FMBN). This then means that the success or failure of the NHF rests on just one body – the FMBN. As rightly pointed out by Ozili, P.C (2009) that at this point, it is worth raising
questions such as –how much has been collected? Where are these monies kept? What interest has accrued to the Fund? How many houses have being built? The “Bulk” responsibility is hampering the operations of the bank. Thus, there is urgent need to re-structure the Bank for it to be more effective in its operations in the following areas:-

(ii) **Difficulty in Transfer of Titles and the Entrenchment of the Land Use Act into the 1999 Constitution.**
Fundamentally, one of the major obstacles to provision of housing emanates from the Land Use Act of 1978, for where there is lack of judicial clarity, how can one more people be compel to pay in(invest) in mortgage finance? Most part of it has proved detrimental to the quest and provision of home ownership through mortgage financing in Nigeria. The most detrimental sections are sections 22 and 26 of the Act.

**Sections 22 of the land use Act provides:**
“It shall not be lawful for the holder of a statutory right of occupancy granted by the governor to alienate his right of occupancy or any part thereof, by assignment, mortgage, transfer of possession, sublease or otherwise howsoever, without the consent of the governor first had and obtained”.

**Section 26 of the Act Provides:**
“Any transaction or any instrument which purports to confer on or vest in any person any interest or right over land other than in accordance with the provisions of this Act shall be null and void”.

Thus, it is apparent that that the provisions of the above mentioned sections of the law have crucial implications for mortgage financing in Nigeria. The lender of money has legitimate expectation of recovering the principal sum and interest. In the event of default by the borrower, the expectation is that the borrower should be able to realise the security provided by the borrower without much difficulty. Where there are serious problems in the realisation of the mortgagee’ security, the drive to lend will fall significantly and with attendant negative consequences on housing delivery. The major problem here thus is that, once the bankers realise that there is the legal requirement under the Land use Act of 1978, that to the effect that any mortgage transaction they engage in without prior consent of the governor is null and void, this will serve as a disincentive to grant mortgages because of the attendant risk involved; where they do, this will be factored into the risk premium, consequently pushing up the cost of housing.

**ii Incoherent legal regime on Land ownership in Nigeria and its impact mortgage Finance.**
The incoherent judicial pronouncements on the interpretations of the provisions of section 22 and 26 of the Land use Act, also constitutes a major problem to mortgage financing sustainability in Nigeria. Evidence from some of their interpretations shows that even the highest court of the land (the Supreme Court), may not be too sure on the position of law on the subject matter. In various occasions, the apex court has offered different interpretations. Evidence points to the various times at which the Supreme Court has come out with different and conflicting judgments on the legal consequences of the land use Act of 1978.

In 2008, in the case of Calabar Central corporative thrift Credit Society vs Ekpo, it held that because the Governors consent has not being endorsed in a document of alienation, being a mortgage or other similar transaction, such a document is a worthless paper and the transaction is null and void, and of no effect whatsoever. Shockingly, this is a complete contrast of its own ruling less than a year before this, where it held that the sheer fact that the Governor’s consent is not recognized on a document of alienation does not make the transaction invalid and does not leave the banker without a remedy. Rather, it means that
transaction is inchoate, uncompleted in a process and not that it is invalid or void. The inference from the earlier ruling is that the banker can still proceed to complete the transaction that was in process by obtaining the governor’s consent and everything will be normalised. But the most recent judgement leaves the bank with no remedy. All of these grey areas point to just one fact in finance, the higher the risk in a transaction cost, the higher the interest rate which consequently results in lower access and affordability of mortgage financing – The interest rates on loans only follows the risk factors; but most importantly, is that fact that it discourages more prospective investors/contributors to the mortgage finance pool, hence, making it unsustainable.

The second and most important difficulty here is the Entrenchment of the Land Use Act in the 1999 Constitution consequently making its amendments difficult. As shown from evidence above, it has complicated issues in land administration and subdued mortgage finance development due to insecurity of tenure/ownership and ambiguity.

(iii) Macroeconomic Stability -Unemployment, Inflation& High Interest Rates.

The global wind of economic recession and it attendant job losses did not spare Nigeria at every moment of its prevalence. This has made most governments of the time to embark on downsizing of its staff in the name of “economic restructuring”. People who are out of job and struggling to feed themselves cannot contribute to the Fund. Housing may be a necessity, but only after survival. Also the rate of inflation has a negative impact on the savings and investments necessary to produce houses. High and persistent inflation makes nominal interest rates high and thus the real cost of credit/capital very high. This also serves as a discouragement to some would be investors in the mortgage finance pool. But this may be out of ignorance as statistics shows that only real estate investment can maintain its real value after all the booms and burst. that the government has spent much time trying to keep interest rates low, rather than combating macroeconomic instability. As much as possible government should strive to achieve single digit mortgage interest rates while maintaining macroeconomic stability

(iv) Poor database structure in the housing sector to guide planning and facilitate informed decision-making.

(v) Lack of Mortgage Insurance for houses being sold and also for mortgage loans being incurred on these houses: Most of the first time house owners fall into the low and middle income brackets. Lending to them will necessitate a guarantee backed government, which is not always present. We can borrow from the US system, here, The US FHA’s responsibility is primarily the insurance of housing loans, which builds confidence in the system and thus shores –up the number of prospective investors. This way, lenders will be able to provide credit to home buyers, also secondary market for mortgage securities can only be established when there is as such a guarantee. Local and foreign capital can then flow into the housing sector.

(vi)The existence of parallel in-house Housing Schemes in some parastatals/Agencies and organizations such as CBN, NPA, NNPC, PHCN is also affecting mortgage finance sustainability. Their argument is that as they operate their own in-housing schemes, it would amount to double task if their staff contribution to the Fund.

(vi) Delay in the completion of the 2004 public sector reforms by the Federal Government which approved the re-structuring of the FMBN and liquidation of the Federal Mortgage Finance Limited.
Lack of sufficient awareness and sensitization on the benefits that may accrue to contributors; most civil servants that are contributors are not beneficiaries of NHF because they are ignorant of the requirements for obtaining housing loans.

Delay in the concurrent passage of all the pending Housing related Bills including amendments of the Land Use Act; Concurrent in the sense that, the passage of only a few of them can not address the multi-faceted nature of lack of sustainability of mortgage finance in Nigeria.

Technical Know How Gap: Currently, the knowledge and skill available in mortgage banking finance, building construction, estate management and town planning in Nigeria is quite limited. The country witnessed a massive failure of many primary mortgage banks, finance companies and investment banks in the 1980’s and 1990’s because they lack the knowledge and skills they required to function properly. Some of the low cost housing scheme that failed includes: Satellite and Festac Towns Lagos, Malali Low Cost housing Scheme, Rainbow Town Rivers state to mention but a few. This affects investors’ confidence on prospective contributors.

General lack of trust/apathy towards the Fund as a result of lack of noticeable change in the level of home-ownership among citizens of some states as evidenced by the number of participants from some states of the federation.

Section 5: Policy Measures Towards Attaining sustainable Mortgage Finance in Nigeria

From our findings, the inefficiencies identified with most government attempts at making mortgage finance more robust and accessible includes; scope and regulatory framework of the NHF, land administration frameworks and titling procedures, registration procedures and cost, as does the lack of an organised database and key information on the housing markets and housing finance sectors. In this section, we shall be proffering possible policy options towards making mortgage finance robust and sustainable. We will also be drawing success lessons from other developing countries such as India, Bangladesh and the United States. The choice of from two developing countries of south East Asia is due to their peculiarity – Bangladesh has a population about the same size as Nigeria (150 million) and India, like Nigeria is an emerging economy, though a highly industrialized one. The US is examined because of its highly developed mortgage finance sector.

Restructuring of the NHF/FMBN making it more effective in the following areas:

- The current system that leave the FMBN with the sole responsibility of managing and administering the NHF funds
- The Fund/Bank should diversify its channels of collection, to include the use of other PMI and banks as proven intermediaries for proficient revenue collection. Other government organizations such as NITEL, Customs etc are using the banks in efficient and effective revenue collection.

- The supervision of operations also has to be restructured; from the current situation where the supervision of FMBN and PMI’s is the exclusive duty of the federal ministry of Housing and Urban Development. The current structure is not cognizant of the fact both the FMBN and PMIs are bank and not a housing development Authority.
(ii) The removal of the Land Use Act from the National Constitution and the addressing of the weaknesses of the pending recommendations of the presidential committee on Housing and Urban Development, currently incorporated in the Bills awaiting passage by the national Assembly (LUA and NHTF) Bills

The Technical Committee’s report was not robust enough as it did not address the most critical issue which is recommending the Grey/murky (LUA) in terms of management, execution and practicability be removed from the Federal Constitution, as this can make for easy amendments whenever the need arises. However, its recommendation seeking to return the issues of mortgage and assignment rights to the customary formalities of registration and stamp duties without formal consent of the Governors is a positive step in the right direction.

Enactment of a new Law making Participation in the National Housing Fund compulsory:—

The national housing fund should be treated as a retirement fund, to which everybody who is employed either as a wage earner or as a self employed person should subscribe to (so as to increase the pool). The NHF number should be like a social security number. This will increase the pool/amount accumulating in it. Also, no agency/parastal should be allowed exemption. Those obliged to contribute should not be left un-penalised. There should be sanctions to make them comply with the law.

Enactment of a “living wage” law that should be indexed to the rate of inflation, which will also capture the rate of price increase in the housing sector; and hence, the market can now work for the demand and supply of mortgage.

Low income Finance; “The power of micro finance “Lessons from Bangladesh: With the current restructuring of the micro finance banks in Nigeria especially in terms of insuring their deposits and boosting their liquidity; The Bangladeshi Graemen success model can be replicated in Nigeria. This could cater for low-income earners in the semi-urban areas.

Risk Management and Housing Finance: The ability of any financial institution to identify and assess risk is crucial to their viability and sustainability. The mortgage market is vulnerable to so many risk including liquidity risk (maturing mis-match), market risk, (interest rate risk) credit risk. This may require a more advanced technical expertise, but the mortgage institutions will find it worthwhile to train some of their staff in these areas, as this is what guarantees best practice in developed economies.

Lessons from the United States Secondary Property Markets: The introduction of insurance for houses and mortgage loans introduce more investors’ confidence and thus will help us to effectively progress into the secondary property market that comes with a higher liquidity.

The worst of them all in Nigeria is the legacy of a high level of non performing housing loans/corruption among state owned banks that plagued the system today (the national cake syndrome). A good example is incident concerning the recovery of 724 million naira by the independent and corrupt practices commission (ICPC) as outstanding loans owed by estate developers under the National Housing Scheme funded by the federal mortgage bank of Nigeria (FMBN) – (The Guardian Friday, August 5th 2011). Most of them believe that it is their own share of the “national cake”. This is fuelled by the widespread fraud with impunity that has come to epitomise the banality of corruption in Nigeria!
Section 6: Policy Recommendations, summary and conclusion

The problem of non-sustainability of mortgage finance in Nigeria is multi-faceted thus will require a multi-facet policy approach viz:

1. Effective implementation of the NHF Scheme through the following:

   a) By mounting an intensive NHF sensitization campaign so as to achieve annual collection target (N20 billion is projected for year 2009 by FMBN).
   b) By ensuring a conducive legal and regulatory framework for mortgage transactions, this can be achieved by the concurrent passage of all housing related bills before the National Assembly.
   c) States not participating in the NHF scheme should be encouraged to participate. Statistics shows that not all state have vigorously participated.
   d) Re-capitalization of the current PMIs in the country. This would expand networking, confidence building, and accessibility to customers as well as increase volume of business they can engage in.
   e) Through the insurance of Mortgage bonds and securities for mortgage financing.
   f) The internal control and loan monitoring system should be strengthened, so as to check against abuse/fraud.
   g) The introduction of mortgage insurance and title insurance as new products will enhance access to mortgage finance. This is vital and helpful in the growth of the mortgage industry in developed and emerging economies with high home-ownership rates for e.g. Singapore-90%, USA-70%, Taiwan-80%
   h) Put in place measures to check strict compliance with the NHF Act by stake-holders – FG, Commercial banks, Insurance companies and Agencies/Parastatals.
   i) Investment of the proceeds of the sale of Federal government houses in the country to the FMBN with a view to financing housing delivery in Nigeria.
   j) Diversification of the source of funding into the housing finance sub-sector to include both domestic and foreign funds. The previous experience of some times over relying on foreign funds such as the World Bank has not yielded the desired result.
   k) Collection and management of the NHF should be strictly carried out in accordance with the NHF Law (Act).
   l) The Expansion of the spread and depth of Mortgage finance delivery through targets groups with emphasis on non-salaried informal sector, housing co-operatives, professional groups (Unions/Associations), Religious groups, private institutions, etc.
   m) There should be stiffer sanctions / penalties for the offence of non-remittance of amounts deducted from the workers’ wages with

2. The following Legislations that were identified by the Presidential Technical Committee on Housing and urban Development deserve speedy considerations and passage; as their passage will enhance the effective implementation of the NHF scheme. The bulk of these laws have existed but merely as obscure pieces of legislations. They were submitted in 2005 and in 2008. Their passage should also take into consideration, some of their weaknesses I have already identified above. They include:

   • The Land Use Act, 1978 (Amendment) Bill.
• The Federal Housing Authority Act, 1990 (Amendment) Bill.
• The National Housing Trust Fund Bill.
• The Primary Mortgage Institutions Act 1989 (Amendment) Bill.
• The Federal Mortgage Bank of Nigeria Act 1993 (Amendment) Bill.
• The Trustees Investments Act (Amendment) Bill.
• The National Social Insurance Trust Fund Act 1993 (Amendment) Bill.
• The Securities and Exchange Commission Act (Amendment) Bill.

(iii) The Use of macroeconomic policy to make mortgage finance sustainable available.
To achieve this, the government needs to package a strong macroeconomic policy so as to achieve a low and stable inflation regime. This will increase savings and lower interest rates. Thus, the national housing can then attract remunerative interest rates and long term capital can then flow into the sector. A law should also be enacted establishing a living wage by indexing wages to inflation.

3. The introduction of E-Governance: Poor database structure in the mortgage finance sub-sector to guide planning and facilitate informed decision-making. The paucity of credible information on borrowers, most people credit history cannot be known. This affects the confidence of investors and thus mortgage finance in Nigeria.

4. The Role of Islamic Bank in Mortgage in Mortgage Finance and its interest free features should also be explored. It has experienced a reasonable a success in Bangladesh.

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