

Role of mortgage bank in housing production

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Abstract: *This study examines the role of mortgage bank in housing production in Nigeria. It goes on to evaluate the impact of mortgage bank in housing delivery. The study further assessed the causes of inadequate housing and also examined the achievement of mortgage sector up to date. Data for the study were collected through well-structured questionnaire directed to stakeholders in the banking sector and building industry professionals. Data collected were analyzed using frequency distribution tables and relative significance index. The findings revealed that factors such as the establishment of the National Housing Fund (NHF) ranked first (88%) significance followed by establishment of voluntary schemes, mandatory schemes and provision of substantial budgetary allocations and financial transfer to the housing finance system ranked second (84% significance), giving mobilization of savings into mortgage institution ranked least with 67% significance. The findings also revealed that inaccessible financing ranked first (79%), Poverty, low household income and unemployment (75%) significance, Housing supply constraint (70%), and lack of access to land have been the causes of inadequate housing. Furthermore, the findings showed that the mortgage sector has achieved significant feats through the National Housing fund (89%), Placement of Term Deposits with PMIs (82%), Sustained exclusion of other Financial Sectors in the on-leading window of the NHF scheme (74%), and Collection of NHF monthly proceeds from contributors by PMIs (71%). Conclusion and recommendation are made on the report of this research paper.*

I. INTRODUCTION

Mortgage can be seen as a debt instrument that is secured by the collateral of specified real estate property and that the borrower is obliged to pay back with a predetermined set of payments. Mortgage Bank specializes in the originating and or serving mortgage loans. A mortgage is a state licensed banking entity that makes mortgage loan directly to consumers. The first mortgage Bank was established in 1956 known then as the Nigeria Building Society (NBS) a joint venture of the Commonwealth Development Corporation and the Federal Government of Nigeria.

A mortgage bank is a bank that mobilizes financial resources, especially shares, savings and deposits from surplus units in the economy for financing-housing the investment need of the deficit units. [1] defined mortgage bank as an institution set up by private individuals, government and cooperative bodies to mobilize savings from the public to facilitate qualitative and quantitative improvement in housing development.

The legal framework for the establishment and operation of mortgage business is prescribed in the [2]. The promulgation of the decree is informed by the need to promote the national evolution of institutional structures to accelerate the development of appropriate financial instruments, through which resources could be mobilized

to support credible housing delivery in Nigeria. All these we captured in the established of the Federal Mortgage Bank of Nigeria which was established through [3]. The creation of this bank was to promote the establishment and supervision of the activities of Primary Mortgage Institutions to arrest the housing inadequacy before the promulgation of the Primary Mortgage Institution (PMI) Decree.

II. LITERATURE REVIEW

In considering the global need for housing in Nigeria, it was stated by [4] that one million people in Africa about half the total population of these continents were homeless or living in houses which are dangerous to health. According to [5] said that the availability of adequate housing finance is the cornerstone of any effective and sustainable shelter or housing project. Recently housing production is highly contentious and politicized issue that is of great concern to Administrator, Scholars and the public in Nigeria. In the last decade the influx of people into urban areas, the national population increase and inadequate responses by the Government have contributed to the appalling situation in this country's housing sector to the extent that economic development and the welfare of the citizens are adversely affect (Federal Republic of Nigeria). However, housing production system in Nigeria is a combination of various inter-linkage components such as land, infrastructures building materials, building regulations policies and more importantly the finance components [6]. The cost of construction is now very high, making it difficult for anybody with regular income to save for a building, which may cost a fortune. So the society is now changing form the past ways of saving to other sources of housing finance [7]. [6] observed that rapid population and poor economic growth have compounded the problem of inadequate housing in Nigeria. These housing inadequacies, particularly for low income group have been complicated by high rate of population growth [4].

A. Housing Finance in Nigeria

Housing finance in Nigeria: an overview of Government policies aimed at providing affordable and comfortable housing for all Nigerians include the following:

1. Credit Policies

The Central Bank of Nigeria (CBN) has through its credit policies, required the erstwhile commercial and merchant banks to allocate a stipulated minimum proportion of their credit to the housing/construction sector. This is with the aim to encourage the Banks to support the development of the housing sector in the country. In the 1979/80 fiscal year for instance, the minimum stipulated for banks was 5 percent of total loans

and advances. The share was raised to 6 percent in 1980 and 13 percent in 1982.

Where banks failed to meet the stipulated target, such shortfalls were deducted at source from the defaulting bank's deposit with the CBN and passed on to the Housing or Construction sector through the Federal Mortgage Bank of Nigeria. The financial sector was, however, liberalized in 1993. With the deregulation, the preferred status accorded to the housing and construction sector was discontinued' [8].

2. Insurance Companies' Funds

Insurance companies by the nature of their not too volatile funds are equally well suited to providing housing finance. This was why they were expected to invest 20% of their non-life and 40% of their life premiums into the National Housing Fund.

3. Specialized institutions

The main Institutions worthy of mention in the area of specialized Institutions are Government agencies (Federal Housing Authority, State Housing Corporations) that are usually funded through budgetary allocations.

4. The Federal Mortgage of Nigeria (FMBN)

The Federal Mortgage of Bank of Nigeria commenced operations in 1978, following the promulgation of the [3] as a direct Federal Government intervention to accelerate its housing delivery programme. The FMBN is expected to expand and coordinate mortgage lending on a nation-wide basis, using resources from deposits mobilized and equity contributions by the Federal Government and CBN at rates of interest below the market rates. By mid-1980s, the FMBN was the only mortgage institution in Nigeria. However, it is arguable if this mandate has been satisfactorily performed to date.

5. Primary Mortgage Institutions (PMIs)

The promulgation of the [2] provided the regulatory framework for the establishment and operation of Primary Mortgage Institutions (PMI) by private entrepreneurs. The FMBN under the decree became the apex institution, which regulates primary mortgage institutions and was empowered to license the PMIs as second tier housing finance institutions. The PMIs, under the Decree were to mobilize savings from the public and grant housing loans to individuals, while the FMBN mobilizes capital funds for the primary mortgage institutions. The PMIs were expected to enhance private sector participation in housing finance.

6. National Housing Fund (NHF)

The NHF was established subsequent to the promulgation of the [9] as a mandatory contributory scheme to mobilize cheap and long term funds for housing credits. The Fund represented the financial component of the new National Housing Policy, which was adopted in 1991.

It is also expected to insulate the housing finance system from the fluctuations that had characterized its past

reliance on Government intervention and to provide long-term loans to mortgage institutions for on – lending to contributors to the fund. There was an expected mandatory contribution by Nigerian workers in both the public and private sectors. Participation in the scheme was required for all workers earning N3,000 per annum or more. The participants were to contribute 2.5 per cent of their monthly salaries to the housing fund at an interest rate of 4 per cent to each savings/ contribution made.

Deposit Money Banks were expected to make Contributions of 10 per cent of banks' loans and advances to the Fund at an interest rate of 1 per cent above the rate on current account.

Table 1: Status of NHTF as at end of 2008.

NHTF fund base	N10.3bn	N41.96bn
Registered contributors	1,855,868	3,427,348
Average contribution	N5,550.50	N12,242.70
Participating states	3	24
Average contribution/State	N3.43bn	N1.75bn

Source: FMBN, 2009

7. Private Individuals

Government encourages individuals to save to build or buy their houses at low interest rates.

Under this scheme, the Primary Mortgage institutions are to mobilize savings and deposits from the public like the commercial banks.

8. Cooperative societies

Cooperative societies pool individual members' resources together from where soft loans are advanced to their members. They have become very popular especially in land purchase, particularly in semi-urban areas. Cooperative societies are also known to be involved in the provision of credit for housing to their members.

III. METHODOLOGY

Sixty (60) questionnaires were distributed but forty six (46) were retrieved with the intention of analyzing response from the public and private organizations in building industry and banking sectors toward determining the role of mortgage bank in housing production. Data were obtained from both the primary and secondary sources which include interview, questionnaire, text books journal publication and internet facilities. The Likert scale involving rating on interval scale of 5 and 1 developed for application in social science and management research for quantification of qualitative variable were used. The statistical tools used for this study include percentage, mean, and relative significance index (RSI). The relative significance Index (RSI) ranking were used for ranking of the factors studied. These methods have been used in construction research by Authors such as [10], [11], [12],

among others.[13]gave an equation that could be useful for determining Relative Significance Index (RSI) in prevalence data as:

$$RSI = \frac{\sum \mu}{AN}$$

Where μ is the weighting given to each factor by respondents, A is the highest weight (i.e. 5 in this case) and N is the total number of respondents

For instance for item 6 on the Table 7 of the questionnaire, Role of mortgage bank in housing production 33 respondents gave “strongly agree”, 4 respondents gave “agreed”, 5 respondents gave “undecided”, 2 respondents gave “disagreed” and 2 respondents gave “strongly disagreed” each. The relative significance index is given as:

$$RSI = \frac{5(33) + 4(4) + 3(5) + 2(2) + 1(2)}{5(46)} = 0.88$$

The results off other computations are as shown in Table 7.

IV. DATA ANALYSIS AND RESULTS

The data were presented using tables for clarification and better interpretation. The analysis tools included both descriptive and inferential statistics.

A. Respondents Profile

Table 2: Respondents' location

Location	Frequency	Percentage
Ado-Ekiti	13	28.26
Akure	15	32.61
Benin City	7	15.22
Oshogbo	11	23.91
Total	46	100.0

Table 2 showed the locations of respondents. It showed that 32.61 (15) percent are located in Akure, 28.26 (13) percent of the respondents are located in Ado-Ekiti, 23.91(11) percent are located in Oshogbo and 15.22(7) percent of the respondents in Benin City.

Table 3: Nature of Work

Nature	Frequency	Percentage
Public service	35	76.1
Consulting Firm	2	4.3
Contracting Firm	2	4.3
Others	7	15.2
Total	46	100.0

Table 3 showed the nature of respondents' work. It showed that 76.1 (35) percent are in Public services, 4.3 (2) percent are with consulting firms, 4.3 (2) percent are with contracting firms, and 15.2 (7) percent are working in other types of establishments.

Table 4: Designation of Respondents' Professional Designation

Designation	Frequency	Percentage
Quantity Surveyor	6	13.04
Engineer	9	19.57
Contractor/Builder	8	17.39
Others	23	50.00
Total	46	100.0

Table 4 showed the respondents' professional designation. It showed that 50 (23) percent practice other kinds of professional, 19.57 (9) percent are engineers, 17.39 (8) percent are contractors or builders and 13.04 (6) percent are quantity surveyors. This revealed that 50 (23) percent of the respondents are professional in the construction industry while 50 (23) are stakeholders in the construction industry.

Table 5: Educational Qualification of Respondent

Qualification	Frequency	Percentage
M.Sc	5	10.9
B.Sc/ B.Eng	20	43.5
HND	13	28.3
Others	8	17.4
Total	46	100.0

Table 5 showed the educational qualification of respondents. It showed that 43.5 (20) percent have Bachelor of Science (B.Sc.) or Bachelor of Engineering (B.Eng.) degrees, 28.3 (13) percent have Higher National Diploma (HND) degrees, 10.9 (5) percent have masters (M.Sc.) degrees, and 17.4 (8) percent have other types of educational qualifications.

Table 6: Years of Experience of Respondent

Years	Midpoint (X)	Freq (F)	FX	%
1-5 yrs	3	18	54	39.1
6-10 yrs	8	22	176	47.8
11-15 yrs	13	6	78	13.0
Total		46	308	100.0

$$\text{Mean} = \frac{\sum FX}{\sum F} = \frac{308}{46} = 6.70$$

Table 6 showed the number of years of respondents' professional experience. It showed that 47.8 (22) percent have six to ten years of professional experience in their respective professions, 39.1 (18) have one to five years of professional experience in their respective professions, and 13 (6) have eleven to fifteen years professional experience in their respective professions.

B. An Assessment of the Role of Mortgage Bank in Housing Production

Table 7 show an assessment of the role of mortgage bank in housing production and the ranking of the factors through the use of Relative Significance Index (RSI).

Table 7: Perceived role of mortgage bank in housing production

Perceived role of mortgage bank in housing delivery	1	2	3	4	5	Total	TWV	RSI	Rank
Mobilization of savings into Mortgage Institution	10	6	7	5	18	46	153	0.67	6
Provision of incentives for the capital market to invest in property development.	2	5	6	15	18	46	180	0.78	4
Provision of policy controls over the allocation of resources between the housing sector and other sectors of the economy.	0	7	8	16	15	46	177	0.77	5
Facilitation of flow of domestic and international resources into the priority housing areas, such as low income housing.	2	2	12	13	17	46	179	0.78	4
Need for government to establish voluntary schemes, mandatory schemes and provide substantial budgetary allocations and financial transfer to the housing finance system	2	1	7	12	24	46	193	0.84	2
Establishment of National Housing Fund (NHF) to be administered by the Federal Mortgage Bank	2	2	5	4	33	46	202	0.88	1
Commercial Banks, Merchant Banks and insurance Companies are given reasonable conditions to encourage them to invest in mortgage business.	0	4	11	11	20	46	185	0.80	3

Table 7 showed the Relative Significance Index (RSI) of the perceived roles of mortgage bank in housing delivery. It revealed that Establishment of National Housing Fund (NHF) to be administered by the Federal Mortgage Bank ranked first with RSI value of 0.88 (i.e. 88 percent significance), Need for government to establish voluntary schemes, mandatory schemes and provide substantial budgetary allocations and financial transfer to the housing finance system ranked second with RSI value of 0.84, Commercial Banks, Merchant Banks and insurance Companies are given reasonable conditions to encourage them to invest in mortgage business ranked third with RSI value of 0.80. These are followed by Provision of incentives for the capital market to invest in property development and Facilitation of flow of domestic and international resources into the priority housing areas, such as low income housing (0.78), Provision of policy controls over the allocation of resources between the housing sector and other sectors of the economy (0.77), and Mobilization of savings into Mortgage Institution (0.67). The result also showed that all the roles are significant with the least role having 67 (0.67) percent significance.

C. Severity of the Causes of Inadequate Housing

Table 8 shows the severity of the causes of inadequate housing and the ranking of the factors through the use of Relative Significance Index (RSI).

Table 8: Severity of the causes of inadequate housing

CAUSES OF INADEQUATE HOUSING	1	2	3	4	5	Total	TWV	RSI	Rank
No access to financing	4	1	9	12	20	46	181	0.79	1
Poverty, low household income and unemployment	2	4	15	8	17	46	172	0.75	2
No Access to land	3	9	18	4	12	46	151	0.66	4
Housing supply constraint	4	4	14	14	10	46	160	0.70	3

Table 8 showed the Relative Significance Index (RSI) of the Severity of the causes of inadequate housing. It revealed that No access to financing ranked first with RSI value of 0.79 (i.e. 79 percent significance), Poverty, low household income and unemployment ranked second with RSI value of 0.75, Housing supply constraint ranked third with RSI value of 0.70, and No Access to land ranked fourth with RSI value of 0.66. This showed that all these

causes are significant with the least cause having a 66 (0.66) percent significance.

D. Mortgage Sector Achievements

Table 9 shows the mortgage bank achievements in housing production and the ranking of the factors through the use of Relative Significance Index (RSI).

Table 9: Mortgage sector achievements

Mortgage Sector Achievements up to date	1	2	3	4	Total	TWV	RSI	Rank
National Housing Fund (NHF) scheme	2	1	13	30	46	163	0.89	1
Sustained exclusion of other Financial Sectors in the on-leading window of the NHF scheme.	7	6	15	18	46	136	0.74	3
Placement of Term Deposits with PMIs as currently being done with commercial banks i.e expand the scope to include PMIs	1	8	15	22	46	150	0.82	2
Collection of NHF monthly proceeds from contributors by PMIs, to deepen the NHF scheme.	4	15	12	15	46	130	0.71	4

Table 9 showed the Relative Significance Index (RSI) of the Mortgage sector achievements. It revealed that National Housing Fund (NHF) scheme ranked first with RSI value of 0.89 (i.e. 89 percent significance), Placement of Term Deposits with PMIs as currently being done with commercial banks i.e. expand the scope to include PMIs ranked second with RSI value of 0.82, Sustained exclusion of other Financial Sectors in the on-leading window of the NHF scheme ranked third with RSI value of 0.74, and Collection of NHF monthly proceeds from contributors by PMIs, to deepen the NHF scheme ranked fourth with RSI value of 0.71. This showed that the mortgage sector has made significant achievements with the least achievement having a 71 (0.71) percent significance.

V. DISCUSSION OF FINDINGS

With the use of statistical tools, the study was able to assess the causes of inadequate housing, the impact and achievements of mortgage banking in housing delivery.

The findings revealed that factors such as the establishment of the National Housing Fund (NHF) (89% significance), establishment of voluntary schemes, mandatory schemes and provision of substantial budgetary allocations and financial transfer to the housing finance system (84% significance), giving Commercial Banks, Merchant Banks and insurance Companies reasonable conditions to encourage them to invest in mortgage

business (84% significance) among others will contribute significantly to housing delivery.

The findings also revealed that inaccessible financing (79%), Poverty, low household income and unemployment (76%), Housing supply constraint (70%), and lack of access to land have been the causes of inadequate housing.

Furthermore, the findings showed that the mortgage sector has achieved significant feats through the National Housing fund (89%), Placement of Term Deposits with PMIs (82%), Sustained exclusion of other Financial Sectors in the on-leading window of the NHF scheme (74%), and Collection of NHF monthly proceeds from contributors by PMIs (71%)

VI. CONCLUSION

Establishment of the National Housing Fund (NHF) was perceived as most significant role of the mortgage bank, particularly in housing productions A relationship between mobilization of savings into the Mortgage Institution. It was discovered that the beneficiaries are unable to access the funds and the Government should establish voluntary schemes, mandatory schemes and provide substantial budgetary allocations and financial transfer to the housing finance system. To Provision of incentives for the capital market to invest in property development.

VII. RECOMMENDATIONS

With the above mentioned findings and conclusion, the following recommendations are made in order to promote mortgage banking in housing production.

A concerted and transparent Government intervention in the provision of truly low cost residential houses in the urban centers should be made. There should be a focused intervention in the funding and operation of the FMBN/PMIs by the government. There should be stable sources of power and water to reduce the cost of doing business by the banks and other power users.

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