Housing Finance in Nigeria

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Abstract: Housing is a major need of man; and from generation to generation the provision of the basic needs has been a big challenge. The process, method, and products of the provision of shelter for man are housing. In many countries the effort to provide housing seemed unmanageable. In Nigeria, successive governments have made pledges to provide housing without success. The generation of funds for housing is one of the most tasks individuals face. In some societies the government effectively provides, but in Nigeria there is a lacuna. Several finance methods are available to individuals and governments. These methods provide a good market for funds provision and housing utilization. It is expected that government in Nigeria will key into the gains of housing for the wider society and for the individuals.
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1. Introduction

Housing finance literally means funding for housing, funds provision for housing or real estate development. It also means or includes the sources of the finance, the management of the finance and all/ the various operations of the sources, management, procurement and utilization as well as repayment of such finance. Housing finance equally means the same thing as mortgage finance except that while housing finance is a general term encompassing all the transactions in the housing market, mortgage finance can be applied to single or individual housing financial transaction. Housing finance is very important to any housing development effort or to the operation of any government housing policy and programme.

In the absence of adequate finance and the release of funds in the appropriate manner, good housing programmes are either carried out slowly or remain wishful thinking. Financial institutions could provide the necessary financial services required by investors with higher multiplier effects. However, the degree of capital accumulation and investment in housing development depends on the willingness of people to refrain from consumption. Such refrain would enhance savings and the availability of an appropriate facility for coalescing and channeling such savings into the type of housing investment which will result in increased housing stock. Thus, the propensity to save and the marginal housing output ratio are major determinants of the growth rate of the housing stock.

1.1 The Challenge of Housing Provision

Over the years housing production in developing countries has been hampered by several problems. In Nigeria, for example, Falegan (1980) identified that the Federal Mortgage Bank of Nigeria has been hampered by its financial structure and staff strength, especially its low capital base and the low savings propensity of the Nigerian public. The inadequacies of the conventional housing finance system in developing countries tend to exclude the fringe population in these countries from conventional housing finance schemes. Such inadequacies include the problems of allocation the funds for low income housing, problems of access, and inadequate finance terms. Housing development is capital intensive but in many developing countries it is considered as consumer-oriented and consequently receives a lower priority on the ground that it is preferable to create employment and income rather than invest in housing production.

Some of the problems of housing finance in developing countries include The inadequate capitalization base for mortgage operations, the Housing Development and Public Policy inability of the private and public sectors of their economies to mobilize sufficient funds internally through savings generation, over- regulation in the finance market and high eligibility requirements, dearth of qualified and experienced staff and the poverty level of the citizens. Any successful provision of mortgage credit facilities for housing development will depend on the accessibility of the majority of households to such facilities, the viability of credit operations for the housing finance agencies and resource mobilization for the expansion of such mortgage credit operation. The inadequacies of the conventional housing finance syst6m in developing countries tend to exclude the fringe population in these countries from conventional housing finance schemes. Such inadequacies include the problems of allocation the funds for low income housing, problems of access, and inadequate finance terms. Housing development is capital intensive but in many developing countries it is considered as consumer-oriented and consequently receives a. lower priority on the ground that it is Preferable to create employment and income rather than invest in housing production. Some of the problems of housing finance in developing countries include: The inadequate capitalization base for mortgage operations, the Housing Development and Public Policy inability of the private and public sectors of their economies to mobilize sufficient funds internally through savings generation, over- regulation in the financial market and high eligibility requirements, dearth of qualified and experienced staff and the poverty level of the citizens. Any successful provision of mortgage credit facilities for housing development will depend on the accessibility of the majority of households to such facilities, the viability of credit operations for the housing finance agencies and resource mobilization for the expansion of such mortgage credit operation. However two of the basic needs of the human race are food and shelter (house) etc. In view of this and the raise of rapid urbanization with a view of urban abysses, the cities had been over crowded, hence gives right for the need for house and the means to achieve such need. This calls for the need for housing finances to enable private individual, mostly civil servants to sources for funding, procurement and utilization as well as repayment of such finance.

1.2 Historical Background of Housing Finance in Nigeria

According to Arilesere (1997), Abiodun (2000) and Okupe et al (2000), the history of housing finance in Nigeria had been an appalling one. The sudden leap from Agro-based to Petro-Naira based economy did not help matters. The assertion that "money was not our problem but how to spend it" accredited to one of our Heads of state, is a summary of a Nation that lacked focus in the formative years. This situation together with unprecedented population growth has remained unchecked ever since. Housing finance, during the colonial days was limited to the expatriate staff and few selected indigenous senior civil servants in the urban countries. The establishment of Lagos Executive Development Board (LEDB) in 1928; Nigeria Building Society (NBS) in 1956; formation of State Housing Corporations between 1956 and 1960 National Council of Housing 1971 and, Federal Mortgage Bank of Nigeria (FMBN) 1977 are very familiar developments in our history. The failure of these incremental housing production programs and the ever-increasing housing needs led to the promulgation of National Housing Policy of 1991.

1.3 The Housing Situation in Nigeria

The housing situation in Nigeria is characterized by some inadequacies, which are qualitative and quantitative in nature (Oladapo, 2006). While the quantitative housing problem could be solved by increasing the number of existing stock, the qualitative inadequacies are enormous and complex. Despite Federal Government access to factors of housing production, the country could at best expect 4.2% of the annual requirement from her. Substantial contribution is expected from other public and private sectors. Various studies have, at different times, revealed the problems of housing production. Teufic and Ural (1978) Ogundele (1989) Agbola (1987) Okpala and Onibokun (1986) recognized finance as part of housing problems but ranked land and building materials higher. Their findings influenced government housing policies and subsequent establishment of some relevant programmes and institutions like the Site and Service Programme and the National Institute of Road and Building Research.

The drought of information and working knowledge of housing finance operation is a major problem today. In a tight money market, housing is the first area to suffer, since neither the builder nor the consumer can readily obtain finance for housing. Actually, many builders have difficulty obtaining capital for their n in normal times. Two of these problems-the high interest rates that contribute to the high cost of housing and the difficulty in obtaining capital for home construction. According to Onabule (1996), Primary Mortgage Institutions were established under the NHP within 199 1-1996. Unfortunately, only 54 are now operating, mainly in South West part of the country and Abuja. According to Abiodun (1999), National Housing Fund collected about 4 Billion Naira from the Mandatory Saving Scheme. Out of N300 million loan approved by FMBN, Only N 100 million was advanced.

1.4 Existing Financing Framework

In Nigeria, housing is typically financed through a number of institutional sources: Budgetary appropriations, Commercial/merchant Banks, Insurance Companies, State Housing Corporations and the Federal Mortgage Bank of Nigeria (FMBN): and newly established Mortgage Institutions, all these constitute the formal institutions. Informal institutions such as thrift and credit societies, and money lenders who have contributed and are still contributing substantially to the finance of housing construction also persists. The impact of these informal institutions however cannot be properly quantified because they are largely uncoordinated, scattered and varied in scope and operational depth.

1.5 Traditional Methods

Prior to the colonial period, many methods of housing finance were adopted in different parts of the country. Amongst these are Esusu and Ajo, Age grade association, Village development scheme, and Town unions of people living outside their place of birth. Others are Men's revolving loan association, Loans from traditional moneylenders, Social club contributions, Aaro or Owe where members contribute in kind by providing labour on members' site until the circle is completed.

1.6 Modern Methods

The sources of housing finance in existence today can be grouped into two that is, Formal and Informal sectors. The formal sector comprises institutions operating within the statutory guideline stated by Federal Government. Among these are: FMBN Commercial Banks Merchant Banks Specialized Development Banks Insurance Companies and Pension Fund. Some informal sector finance sources for housing are as follows: Personal Savings, Individual moneylenders and, Voluntary Housing Movements.

1.7 Housing Finance Problems

Cost of Construction and Income: According to Windapo (2000) and Okupe (2000) the gap between income and shelter cost in Nigeria is very wide. High cost had been attributed to the rising cost of building materials.

Land: Land question constitutes a major problem in home ownership or housing development. The degree of accessibility in terms of availability and cost remain a big challenge. However the cost of urban land is a g discouragement to urban poor.

Construction Industry: According to Zubairu (2000), the absence of large real estate development companies with access to the relevant technology and financial muscle to develop cheap houses on mass scale for the urban poor is a drawback to our housing delivery system. According to Zubairu (2000), Windapo (2000) and Odusami 998) the reliance on quacks is one of major back in the industry.

Savings: This involves a proper understanding of the three basic motives for holding money - transaction balance, contingency balance and investment balance. There are two types of saving which are voluntary and compulsory Savings.

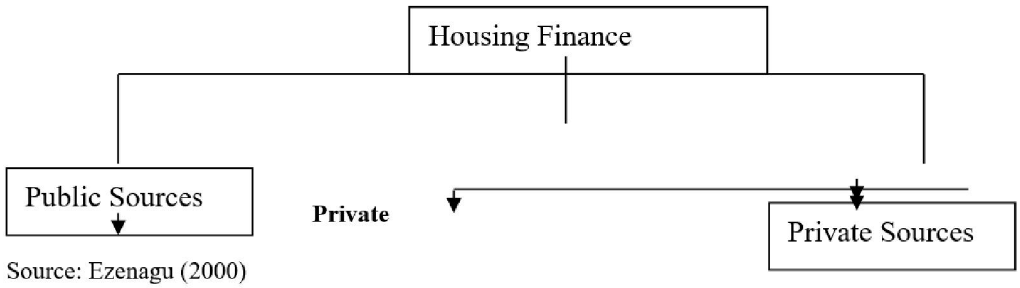
Nationa1 Housing Fund (NHF): For a housing finance system to be successful, a continuous flow of fund must be guaranteed. The data released by FMBN, the administrator of the fund, gives a picture of the status quo of the fund.

Sources of Housing Finance: Onibokun (1971) and Ojajuyigbe *(3985)* have discussed and highlighted on the various sources of using finance in Nigeria. Aaron (1972) equally discussed on the various sources of housing finance in the United States of America. We will be concerned in this section with the various sources of housing finance. Schematically we will begin by showing a diagrammatic sketch illustrating the various sources which would be illustration. Notice the two major or broad sources-public and private together with their constituent components whose descriptions will be subsequently made.

1.8 Under The Existing Financial Frame Work We Have:

1. Federal Government & its Agencies
2. Private Mortgage Bank
3. Esusu Systems
4. Commercial banks
5. Thrift Systems
6. State Government & their Agencies
7. Merchant banks
8. Co-operative Agencies
9. Financial/Investment Companies
10. Friends
11. Local Governments & their Agencies
12. Insurance Companies
13. Family/relatives Agencies
14. Co-operative/thrift Societies
15. Personal Savings
16. Federal Mortage bank
17. Consumer Credit Companies
18. Money lenders
19. State Housing Development
20. Building Societies
21. Corporations
22. State home ownership
23. Companies
24. State Mortgage banks.

According to Onibokun (1985) Housing finance in Nigeria is a victim of the general absence of well developed financial systems or institutions in the country. Viable sources of funds as **in** advanced countries such as the United Kingdom and USA are non-existent in Nigeria. Those who save collateral securities depend on banks (commercial) while the Federal Mortgage bank was1 for those who have influence.



Source: Ezenagu (2000)

1.9 Evaluation of Housing Finance

As has been observed, there was as at 1985 (some fifteen years ago) an absence of well developed financial system or institutions' in Nigeria. The sources of funds which were viable and readily available in developed countries of Europe and USA were non-existent in Nigeria then. Then there was a jolt in the banking industry during the BABANGIDA'S regime. Many commercial, merchant and mortgage banks were licensed and established. The total number of all types of banks in Nigeria which initially stood at below fifty rose astronomically to somewhere over two hundred. This was between 1990 and 1992. From about 1993, a whirlwind of distress began to blow on the banking industry. This whirlwind (distress) blew off so many banks that operated under distressed conditions. Customers' funds were trapped in these banks as the Federal Government with draw their licenses and declared them liquidated and therefore out of business.

Certain reform measures were undertaken by the subsequent Abacha administration with a view to sanitizing the banking industry. This led to the arrest and trial of many banks' chief executives, chairmen, directors and other top officials. Several of them were sentenced to serve various terms in jail. Some others were still awaiting trial while a small percentage of depositors' funds were recovered. That was through the instrumentality of the 1994 Failed Banks Decree i.e. Banks and other Financial Malpractices Decree of 1994. The operation of the commercial banks and mortgage financial institutions with regards to giving loans to the general public is very discouraging.

To qualify for mortgage loans, a minimum (usually high) level of income is required of prospective candidates. These banks in addition require economic capability, continuous and regular income. From a regular employment and savings (arising from steady and regular income). Other requirements include adequate collateral security, and in many cases, they demand security that is more than the cost of the loan (probably to ensure the recovery of their funds in cases of default even if mortgaged properties are auctioned).

The level of income usually specified by these banks is always too high relative to the majority of the people with the result that between 70 and 80 percent of the Nigerian masses are excluded from the available mortgage finance credit facilities (housing loans). In some Latin American (South American) countries minimum income requirements for mortgage loans 41-averages at about $4000 and not less than 50 percent of the population qualify for it. Here in Nigeria as at 1998, majority of the entire population earned less than N100,000 per annum (equivalent to nearly $1000 p.a.) with the result that upwards of 80 percent of Nigeria are automatically disqualified benefiting from a mortgage loan of half a million naira assuming five times the individual's annual income.

The Nigeria mortgage finance sub-sector with its stringent lending terms and requirement has succeeded in excluding the majority of the populace from existing housing loan scheme. Regularity and dependability of the loan seekers employment together with unemployment and under-unemployment, lack of collateral security, general low-income level, level of literacy and even age are benefiting from the existing sources of mortgage finance or funds within the conventional sources. Similarly, the non-conventional sources may not or have not benefited a significant percentage of the populace.

1.10 The Process of Housing Loan Application

The process of application for housing loan is simple and straight forward. The difficulty lies on the lending terms and conditions. The prospective candidate is required to operate an account with a primary mortgage bank of his choice. He then seeks and obtains an application for housing loan from such an institution. He is required to complete this application form and return it indicating in the process evidence of possessing the following:

a) Certificate of occupancy on any piece of land he claims to own.

b) Building plans as produced by a qualified professional e.g. an architect etc.

c) Construction work already commenced on the site alternative evidence of cash deposit to the tune of 20 percent of the amount of housing loan desired or demanded from the bank.

When all these conditions have been met together with the sighting of guarantors who themselves should possess landed properties (collateral securities) in order to ensure facilitation of the processing of the loan application. This process is the case with the average individual who may or not be a public (civil) servant, and who chooses to apply for housing loan through the primary mortgage banks.

In the case of a civil servant, he can apply for housing loan through the various staff housing loan schemes of either the federal or state or local government to which he is an employee. These staff housing loan schemes usually requires less stringent conditions than the mortgage banks. Period of repayment of loans secured through this process is usually long and deductions are made monthly from the recipient's salary.

Sometimes period of repayment lasts from ten to fifteen and even up to twenty, twenty-five and thirty years. Interest rates are usually lower than those of the mortgage or commercial banks as the loans are considered as social loan which would attract below the market-interest-rates.

1.11 Possible Ways of Helping the Poor to Own Houses

The low-income people (the poor) in Nigeria and else-where can be assisted to own houses by themselves in various ways some of which are outlined hereunder. First, the Federal Government should as a matter of priority regard home ownership (especially for the poor) as a very vital aspect of its obligations to the Nigerian citizenry (Federal Republic of Nigeria, 1976; 1991; 1992). The existing national housing policy should be strongly modified together with the National Housing Fund (NHF) and other existing public housing and housing loan provision measures.

Government should mobilize a large amount of money by herself and through the Federal Mortgage Banks with a view to disbursing same to the low-income preferential interest rates far below the existing market rates. The various multi-nationals should be compelled to provide housing loan to all their employees especially the low-income or junior workers. A compulsory housing finance scheme would be required of all public liability companies quoted in the Nigerian Stock Exchange (NSE).

Government should aim at providing either housing loan or a house for every low income (wage earning) family in the country and repayment for such facilities made at a very small or zero interest rate over a significantly long period of time. In some oil rich countries such as Libya, Saudi Arabia, Qatar, United Arab Emirate etc. government provides housing free of charge to her citizens. The existing funds in the various primary mortgage banks should be tapped and pulled together to national loan disbursement fund to be operated by the Federal Mortgage Bank through the primary mortgage banks themselves. Other measures may include compulsory housing finance schemes by the various state and local governments for their low-income staff, special savings schemes for housing targeted at the low-income, contractual savings through the insurance companies viz, insurance plans, social security funds, children's funds etc. institutions and organizations that pursue result oriented home-ownership schemes for the poor could be given preferential tax treatment, this may also extend to individuals, public limited companies etc.

Governments at the federal state and local levels should in addition to their existing commitments to home-ownership for the poor can equally embark upon loan supplementation schemes instead of payment of rent supplement as it is presently done. By this we mean that the various governments in addition to granting housing loans to their staff, will not only stand as their guarantors as is the case presently but. in addition supplement the cost of the loan by way of subsidy say by undertaking to write off a reason able percentage of that loan so as to facilitate repayment by the low-income staff who are the recipients or beneficiaries of such schemes.

Presently, the National Housing Fund (NHF) supervised by the Federal Mortgage bank of Nigeria (FMBN) is mainly operated by the Primary Mortgage Institutions scattered all over the country. This fund is contributed for by all public servants nationwide through a compulsory regular monthly deduction of two-and-half percent of the contributors' monthly basic salary. This is with a view to mobilizing and tapping funds for housing provision on a large scale (and utilizing government's executive fiat) so that over the years, constructed houses could be allocated to the contributors on a turn by turn basis.

The National Housing Fund was established in 1992 and it is a mandatory scheme utilized to mobilize private savings into a poor of funds for the implementation of the National Housing Policy (Bichi, 1997). Government can also through the afore listed measures stimulate housing supply as well as subsidizing demand. An analysis of cost of housing loans through worked examples would have been made in the chapter but the author wishes to engage on that in Chapter 14 titled Property Investment.

The level of mortgage operation in any country and how it is organized depend on and reflect several issues. The population, the size and sophistication of the economy, the degree of urbanization of the society and hence the degree and concentration of demand for loans, the total resources that may be mobilized in the country; and, the financial and the regulatory environment, that is, the supply side *(Nonye,* 1997). The major issue is that the long term commitment of funds lent on mortgage and the low return on investment as well as the diseconomies of scale in view of the relatively small amounts of loans are a disincentive to non-specialized institutions to engage in mortgage lending.

This is a reason why large financial institutions like the commercial and merchant banks are less inclined to engage in mortgage lending in spite of the relatively larger aggregate of funds at their disposal. Of the main sources from which funds are normally mobilized, government sector sources are typically, in view largely, of changes in priorities as well as fluctuations in revenue. Loans from government sources are usually at a normal rate of interest, for reasons of social objectives and political expediency.

1.12 Conclusion

The need for housing in Nigeria is enormous. This section reviewed the theoretical issues underpinning the delivery of housing. The various public and private interventions in housing delivery strategies have been examined. This paper has identified and discussed the various problems that have bedeviled the provision of housing in Nigeria, the various policies the government has put in place to counter these problems, the short comings of these policies and suggested some possible practical solution to these problems.

Therefore, in order to increase housing stock in Nigeria there is the need to incorporate affordable housing delivery scheme into the formulation and implementation of housing policies and program which should not be at the exclusive preserve of federal government at the exclusion of governments at local government level. There is a need now, to reach out and effectively involve the people and governments at grassroots levels in the formulation of housing policies.

The Federal government has been directly involved in the construction of buildings for all categories in the past and even presently. It is now necessary that housing must be considered as a personal service and as such, the primary responsibility of housing should not be left with the people themselves who, however, should be assisted in some ways in order to realize their aspirations for If- actualization of owning individual houses.

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