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Problems Affecting Housing Financing in Southwestern Nigeria

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Abstracts
In spite of its significance, many households (especially in developing countries) are denied access to decent housing as a result of lack of access to suitable forms of credit for housing investment. This paper therefore examined those problems that restrict household access to housing finance in Southwestern Nigeria. Primary data were collected with two sets of questionnaires administered on lenders and borrowers. The sample comprised 170 lenders and 327 borrowers randomly drawn from sample frames of 234 lenders and 467 borrowers. The study showed that in rank order, the three most important problems to lenders were high interest rate and inflation, fund mobilization and affordability while to borrowers, they were high interest rate and inflation, fund mobilization and title deed. Besides the proportion method, data were also analysed by means of two other methods – Relative Importance Index and Principal Component Analysis and they showed comparable results. The study concluded that high interest rate and inflation was the most significant problem affecting housing financing in Southwestern Nigeria. The implication of this is that interest rate and inflation must be seen as very crucial in policies on home ownership, housing finance and delivery which should be properly managed to promote availability and accessibility.

Keywords
Housing financing, mortgage finance, housing financing problems.

INTRODUCTION

Housing is universally accepted as one of the basic necessities of man. Besides, housing investment is usually the largest single form of household wealth and it accounts for between one-quarter and one-half of the capital stock in developed and developing countries (Buckley, 1989). Ibbotson and Seigel (1983) also averred that housing accounts for a larger proportion of the capital stock than of fixed capital formation because of its longer life. All these point in the direction of the significance of housing both to the household and the economy of any given country. Besides the significance of housing, several studies have documented the significance of finance as the pillar, pivot, key, cornerstone and most crucial element in housing investment the availability of which determines access to other key inputs of land, labour, material and infrastructure (Renaud, 1986; Malpezzi, 1990; Tibaijuka, 2002; Boonyabancha, 2002). Adibua (1979) had earlier expressed the opinion that a well conceived grandiose architectural design will perpetually remain a paper dream if there is no finance, to pay for the land, labour and materials that would transform the design into concrete and that housing without finance is an unattainable goal.

Unfortunately, lack of access to suitable forms of credit has always been a major impediment to the provision of housing for low-income groups- the vast majority of urban households in developing countries (UNCHS-Habitat, 1994). According to Renaud (1986), housing finance systems in less developed countries, LDCs, are seriously deficient in their coverage of populations to be served and in the quality of services they provide. The poor, low and even moderate-income households are the majority in developing countries and they cannot afford a loan for the least expensive, commercially built housing units (UNCHS – Habitat, 2002). It is also documented that the institutional sources of housing finance are often inaccessible to most Nigerian households (Falegan, 1985; Olufemi, 1993).

If housing and its financing are that significant as enumerated above, what then are those problems that restrict household access to housing finance especially in developing countries? Specifically, why is housing finance inaccessible to the poor, low and moderate-income households that constitute the majority in developing countries? What is the nature of these problems? What could be done to solve these problems? It is against the foregoing that this paper tried to examine those problems that restrict household access to housing finance in Southwestern Nigeria. The paper also considered empirically how two of the key participants in housing financing rank these problems in order of significance. It suggested measures for solving the identified problems with a view to boosting access of the poor, low and moderate-income households to housing finance. The problem being investigated in this paper has been particularly identified with developing countries. The study area (which includes Lagos metropolis and Ibadan) offers a good example of a region with high population concentration in developing countries that is confronted with problem of housing the urban poor and low-income group. It is therefore reasoned that the findings from this work would have global appeal by being relevant to other developing countries like Nigeria.

REVIEW OF LITERATURE

It has been documented in several studies that high interest rate and inflation have constituted at one time or the other, a major problem of housing financing in countries like US, UK, Hong Kong, Denmak, France, Germany, Chile and Nigeria (Diamond & Lea, 1992; Bramley, 1993; Fu, 2000; Order, 2000; Colton, 2002; Adeoye, 2003). According to Ojo (2004), the quantum of funds available for housing investment in any given country is a function of the level of fund mobilization which in turn depends on the prospects and opportunities from the three approaches identified by Renaud (1986). In this respect, it had even been documented that inadequate funding has become the most important constraint to housing finance in Nigeria (Megbolugbe, 1986; Osanwonyi, 1986). The weak power of enforcement has been identified as a major problem with fund mobilization through mandatory schemes in Nigeria especially under the National Housing Fund (FMBN, 1998).

Studies conducted on households in England, four African countries of (South Africa, Nigeria, Ghana and Tanzania), Zimbabwe, and in many other countries confirm that affordability is a major problem affecting housing financing (especially in developing countries) because it eliminates low-income earners from the housing market (Bramley, 1993; UNCHS, 1994; Moss, 2002). It has been further noted that no other concept is as responsible for the housing crises in developing countries as "affordability" (UNCHS, 1994, p. 8). Studies undertaken on loan recovery activities of public and private housing finance institutions in Kenya, Zimbabwe, Botswana and Nigeria indicate varying results with some recording success stories and some poor performance (UNCHS, 1994; Falegan, 1985; Olufemi, 1993; Ajayi, 1990). In effect, loan recovery/ repayment constitutes a major problem affecting housing financing especially where a financing institution has record of poor or low performance on loan recovery thereby denying new borrowers access to loanable funds.

Renaud (1986) identified two basic models of housing finance systems namely – the British- US model and the Continental – European model with the first model (depository) operating in the primary mortgage market and the second model operating in the secondary mortgage market. Unfortunately, it has been observed that in spite of the attractiveness of the second model, many countries (especially developing ones) do not currently have effective ways of linking lending markets with capital markets (Renaud, 1986; Order, 2000; Colton, 2002). The undeveloped nature of housing finance system as a problem affecting housing financing in many countries (including Nigeria) has also been documented in many studies (Osanwonyi & Megbolugbe, 1987; Olufemi, 1993). There are a number of lender's other eligibility criteria applied by most housing finance institutions which severely restrict the access of low income groups to mortgage loans. These include: minimum (equity) contribution by the borrower (which could vary from 10 to 20 per cent of the house price), provision of additional collateral besides the mortgaged property, taking of adequate insurance cover and possession of current tax clearance certificate (UNCHS, 1994; Olufemi, 1993; Yaya, 2002).

Borrowers are required to have collateral such as titled land, a condition which acts as a major handicap to the poor, and to women as they hardly have the legal right to get titled land in their name in African countries in particular (UNCHS, 1994). According to Diamond and Lea (1992), in many developing countries, issues relating to land title remain a major barrier to housing finance. In Nigeria, the process of procuring title to land under the Land Use Act is very cumbersome and costly in time and money while a prospective borrower under the National Housing Fund Scheme is expected to have a good title to the subject property to be financed from the proceeds of the loan (FMBN, 1998). The right to take over the security for a loan in default is a sine qua non of housing finance and without that ultimate threat to a borrower in arrears, the system would break down (UNCHS, 1994, p. 30). A common complaint from housing finance institutions in developing countries is that legislation is weak and enforcement even weaker when it comes to repossession (UNCHS, 1994, p. 31). Foreclosure and repossession as a problem affecting housing financing is also recognized in Nigeria. Falegan (1985) averred that FMBN had to embark on aggressive campaign to recover the mortgage debts by employing the services of professional auctioneers who advertised and disposed of such mortgaged properties by outright sales.

In the process of government regulatory intervention in areas such as: income and property taxation, subsidy schemes, capital markets, financial institutions, property conveyancing, foreclosure, repossessions etc (UNCHS, 1994) a number of problems are bound to crop up. In his study, Moss (2002) noted that transaction costs in lending to the housing market are usually high and small loans are unprofitable and riskier for a commercial lender. It is being strongly canvassed (UNCHS, 1994) that transaction costs should be drastically reduced especially to enhance the access of low-income earners to housing finance. In Nigeria, this author discovered during the field survey that the PMIs (Primary Mortgage Institutions) are of the view that the rate of 0.5% of the loan value payable by loan applicants is too low relative to the quantum of services they render as a result of which they are clamouring for an upward review of the rate.

From the foregoing review of literature, the problems identified as affecting housing financing are: (i) high interest rate and inflation (ii) fund mobilization (iii) affordability (iv) loan recovery/repayment (v) undeveloped housing finance system (vi) lender's eligibility criteria (vii) title deed (viii) foreclosure and repossession, (ix) government regulatory intervention and (x) transaction costs. These problems have been considered in various separate contexts. This paper has however looked at all these problems within the Nigerian context as they affect housing financing.

THE STUDY AREA

Southwestern Nigeria, the study area for this paper, is highly urbanized and cosmopolitan and is one of the six geopolitical zones of Nigeria covering the following states of the country: Lagos, Ogun, Oyo, Osun, Ekiti and Ondo.The 1991 national census figures put the population of the then five states of Southwestern Nigeria as follows: Lagos (5,685,781), Ogun (2,338,570), Oyo (3,488,789), Osun (2,203,016) and Ondo (3,884,485). Ekiti State was carved out of Ondo State after the 1991 census hence its population figure is sub-sumed in the 1991 figure for Ondo State.
Lagos, in spite of the relocation of the nation's capital to Abuja remains the commercial, financial and business headquarters of Nigeria (Ojo, 2004). A 1985 Federal Office of Statistics survey indicates that Lagos metropolis contains 38.12% of all the industrial establishments in Nigeria, while according to Oladimeji (1995), the metropolis also accounts for 45.1% of total employment in industries. Ibadan which is another major metropolis within the zone is the seat of many educational institutions (including the nation's premier University) and a big commercial center of note even in the West African sub-region. Ibadan is also generally acclaimed as the largest city in black Africa south of the sahara. The headquarters of: 63.29% of the PMIs, 89.89% of the banks and 83.05% of the insurance companies in the country are located in Southwestern Nigeria (Ojo, 2004). The zone experiences high influx of population from other parts of the country and these teeming urban population need housing the financing of which is the concern of this paper. An investigation into the problems of housing financing in the study area is therefore considered expedient and desirable hence this study.

METHODOLOGY

The subjects of study in this work are lenders and borrowers and they constituted the respondent groups for the purpose of questionnaire administration within the study area. The sample comprised 170 lenders and 327 borrowers randomly drawn from sample frames of 234 lenders and 467 borrowers. The sample frame of 234 for lenders is made up of the following key player institutions that are (over the years) engaged in housing financing in the country: PMIs, (50), Banks (89), insurance companies (98) and State Housing Corporations (6). The sample frame of 467 for borrowers group is the total number of individual applicants who have succeeded in obtaining housing loan from the aforementioned lenders group institutions within the study area during the period 1992 to 2000. The sample sizes adopted were 70% of the sample frames and these were quite manageable sizewise. Based on the calculated sample sizes, a total of 170 and 327 questionnaires were distributed to lenders and borrowers respectively. 136 lenders and 305 borrowers questionnaires were duly completed and retrieved representing 80% and 93.3% response rates respectively which appeared impressive. With respect to the time frame adopted for data collection, i.e 1992 to 2000, the year 1992 was chosen because it marked the beginning of major revolution in the mortgage sub-sector of the country's economy with the birth of the National Housing Fund – NHF. Data collection for this work was between June and November, 2003.

From the review of literature, a number of problems were identified as affecting housing financing generally and globally. With respect to the main thrust of this paper, these possible problems were measured by asking the two respondent groups to rank the problems in order of importance on a scale of 1 to 5 with 5 representing very significant and 1 not significant. The main technique of analysis adopted in this paper was the proportion method. The method is a statistical means of representing the significance of a variable relative to all other variables under consideration. Statistically, it is represented by the total score of the variable divided by the overall sum of scores of all variables being considered and is usually expressed in percentage:

Proportion (P) = Total Score of Variable x 100 ……………………………..(1)
Overall sum of scores of all Variables 1

In table 1, P was derived as follows: sum x 100 and for table 2, P was derived as follows: sum x 100.
136 x 5 305 x 5

The other two methods of analysis adopted were RII and PCA.

Relative Importance Index – RII, is a technique of analysis that rates factors against a scale in order to assess the significance of each factor. The scale is then transformed into RII for each factor in order to determine the ranking of the different factors. RII is computed using the following formula:

$$RII = \frac{\sum W}{A \times N} \quad \ldots\ldots(2)$$

where: W = weighting given to each factor by the respondents, which ranges from 1 – 5 in this study, A = highest ranking i.e. 5 in this case and N = total number of respondents.

The Principal Component Analysis – PCA is mainly used as a tool for data reduction: that is, as a transformation, which shows which parts of the data can be discarded with little loss of information. In addition, it can be used to show which variables can be omitted from the set without changing too much the information base. The PCA technique assigns values called Eigenvalues to each factor, upon which factors with Eigenvalue below 1.0 are discarded as not significant.

RESULTS, DISCUSSION AND CONCLUSION

Table 1: Analysis of Problems Affecting Housing Financing from the viewpoint of Lender
Source: Ojo, 2004

Hypothesized Problems	N	Sum	Proportion (%)	Ranking of Factors
Interest Rate & Inflation	135	666	97.9	1
Fund Mobilization	128	596	87.6	2
Affordability	136	559	82.2	3
Loan Recovery/Repayment	136	554	81.5	4
Undeveloped Housing Finance System	120	522	76.8	5
Lender's eligibility Criteria	136	520	76.5	6
Title Deed	128	469	69.0	7
Foreclosure & Repossession	128	454	66.8	8
Government Regulatory Interventions	136	433	63.7	9
Transaction Costs	136	382	56.2	10

Table 2
Analysis of Problems Affecting Housing Financing from the viewpoint of Borrowers

Source: Ojo, 2004

Table 3

Hypothesised Problems	**N**	**Sum**	**Proportion (%)**	**Ranking of Factors**
Interest Rate & Inflation	305	1405	92.1	1
Fund Mobilisation	305	1305	85.6	2
Title Deed	305	1255	82.3	3
Affordability	300	1220	80.0	4
Loan Recovery/Repayment	300	1205	79.0	5
Lender's Eligibility Criteria	300	1100	72.1	6
Undeveloped Housing Finance System	305	1005	65.9	7
Transaction Costs	300	990	64.9	8
Foreclosure & Repossession	290	970	63.6	9
Government Regulatory Intervention	305	905	59.3	10

<u>Analysis from the viewpoint of Lenders by means of RII and PCA</u>

Source: Ojo, 2004

Hypothesized Problems	**N**	**Sum**	**RII**	**Eigenvalues (PCA)**	**Ranking of Factors by 2 methods**
Interest Rate & Inflation	135	666	2.96	2.655	1
Fund Mobilization	128	596	2.65	2.143	2
Affordability	136	559	2.48	1.515	3
Loan Recovery/Repayment	136	554	2.46	1.116	4
Undeveloped Housing Finance System	120	522	2.32	.958	5
Lender's eligibility Criteria	136	520	2.31	.585	6
Title Deed	128	469	2.08	.481	7
Foreclosure & Repossession	128	454	2.02	.289	8
Government Regulatory Interventions	136	433	1.92	.173	9
Transaction Costs	136	382	1.70	8.634E-02	10

Table 4

Analysis from the viewpoint of Borrowers by means of RII and PCA

Hypothesised Problems	N	Sum	RII	Eigenvalues (PCA)	Ranking of Factors by 2 methods
Interest Rate & Inflation	305	1405	6.24	4.489	1
Fund mobilization	305	1305	5.80	2.276	2
Title Deed	305	1255	5.58	1.467	3
Affordability	300	1220	5.42	1.035	4
Loan Recovery/Repayment	300	1205	5.36	0.678	5
Lender's Eligibility Criteria	300	1100	4.89	0.411	6
Undeveloped Housing Finance System	305	1005	4.47	0.353	7
Transaction Costs	300	990	4.40	0.184	8
Foreclosure & Repossession	290	970	4.31	8.016E-02	9
Government Regulatory Intervention	305	905	4.02	2.576E-02	10

Source: Ojo, 2004

Results of analysis from Table 1 show that high interest rate and inflation, fund mobilization and affordability were ranked as the three most significant problems affecting housing financing from the perspective of lenders. The Proportion Values for the three problems are: 97.9%, 87.6% and 82.2% respectively. Results of the analysis also showed that transaction costs had a Proportion Value of 56.2% and was ranked as the least significant by lenders.

Table 2 documents the results of analysis from borrowers viewpoint. The results show that high interest rate and inflation, fund mobilization and title deed were ranked as the three most significant problems affecting housing financing from the perspective of borrowers. The Proportion Values for the three problems are: 92.1%, 85.6% and 82.3% respectively. Results of the analysis also showed that government regulatory intervention had a proportion value of 59.3% and was ranked as the least significant of all the problems by borrowers.

Table 3 contains the results of analysis of problems affecting housing financing in the study area by means of RII and PCA methods from the perspective of lenders. The two methods also ranked equally: high interest rate and inflation, fund mobilization and affordability as the three most significant problems affecting housing financing from the viewpoint of lenders in the study area. The PCA technique also showed that there were four significant problems affecting housing financing namely, high interest rate and inflation, fund mobilization, affordability and loan recovery/repayment as these were the problems that have Eigenvalues above 1.0. The results of analysis of problems affecting housing financing in the study area by means of RII and PCA methods from the viewpoint of borrowers are contained in Table 4. The two methods also ranked equally: high interest rate and inflation, fund mobilization and title deed as the three most significant problems affecting housing financing. Again, the PCA technique showed that there were four significant problems affecting housing financing namely, high interest rate and inflation, fund mobilization, title deed and affordability as these four problems had Eigenvalues of above 1.0. On the whole, Tables 1 and 3 showed comparable results while Tables 2 and 4 also showed comparable results from the perspectives of lenders and borrowers respectively notwithstanding the different methods of analysis adopted.

A comparison of results of analysis from the perspectives of lenders and borrowers show quite interesting revelations. The two respondent groups ranked high interest rate and inflation as the most significant problem affecting housing financing. They both also ranked fund mobilization as the next most significant problem after interest rate and inflation. Whilst they both agreed on the two most significant problems, they however differed on their perception of the third most significant problem after high interest rate and inflation and fund mobilization. Lenders ranked affordability as the third most significant problem while borrowers saw it as title deed. Again, while lenders ranked transaction costs as the least significant of all the problems borrowers perceived this as government regulatory intervention.

That lenders ranked affordability as the third most significant problem might be explained on the grounds that it eliminates low-income earners from the housing market and that no other concept is as responsible for the housing crises in developing countries as "affordability". Borrowers perception of title deed as the third most significant problem might be explained in terms of its being a major barrier to housing finance for the poor and to women especially in developing countries. That lenders perceived transaction costs as the least significant problem could be due to the fact that a borrower has little or no choice in paying these costs once the loan is approved and he decides to accept the loan. The perception of government regularity intervention as the least significant problem by borrowers might be due to the fact that it has a more direct bearing on the operations of the lenders. On the whole, the need for a further study to investigate the differences in perceptions by the two respondent groups in these two areas might be quite desirable.

A major conclusion from this study is that high interest rate and inflation was the most significant problem affecting housing financing in Southwestern Nigeria. The implication of this is that high interest rate and inflation must be seen as very crucial in policies on homeownership, housing finance and delivery which should be properly managed to promote availability and accessibility. The conclusion reached from this study validates what literature has led us to know earlier. It was stated in the review of literature that high interest rate and inflation had wreaked havoc at one time or the other on housing finance systems of countries like US, UK, Germany, France, Denmark and Hong Kong. This conclusion further confirms the global nature of this problem and in the present study within the context of a developing country. It is imperative for government to decisively address this problem of high interest rate and inflation. Fiscal and other economic policies should be put in place to bring down the high interest rate regime which is being currently experienced in Nigeria. A regime of high interest rate is known to discourage borrowing (thereby restricting access to finance) while at the same making lending an unattractive venture. The problem of inflation should also be decisively addressed. Unfortunately, the raw materials base of most building materials in Nigeria have high import content and this is why for example, it is not easy to control the effect of inflation on prices of building materials. Nonetheless, necessary policies should be put in place to contain inflation as much as possible. Appropriate policy measures should also be put in place with a view to solving all the other identified problems in this study.

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