

## **NIGERIA'S HOUSING FINANCE MECHANISM IN PRE-2012 NATIONAL HOUSING POLICY ERA: MATTERS ARISING**

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### **ABSTRACT**

Housing finance is considered to be the prime mover of a national housing delivery framework; a mechanism in that respect is designed to address issues of affordability for households, accessibility and viability for mortgage institutions and developers. In recent times, Nigeria's National Housing Policy has undergone review, which sums up attempts at addressing housing challenge in the country. The short fall in housing stock is massive and population growth has completely out paced and overwhelmed provision. The Federal Mortgage Bank of Nigeria (FMBN) and Primary Mortgage Institutions (PMI) were mandated to support housing development under the 1991 National Housing Policy. This paper presents an appraisal of the impact of this policy with respect to the FMBNs average pooled funding of low, medium and high income housing and matters arising as reflected in the new (2012) National Housing Policy and memoranda to the National Council on Lands, Housing and Urban Development.

Key words: mortgage, loans, housing finance, policy, public sector.

### Introduction

Developed countries are said to have attained the status of the greatest advanced economies through housing development. The United States of America, Canada, and Britain, are countries whose housing sectors contribute between 30% and 70% of their Gross Domestic Product (GDP). Though the global average aggregate investment in the sector is 15% to 35%, the sector in Nigeria has not attained its full economic potentials. This is on the premise of its below par performance of contributing an insignificant 0.38% to its GDP [10]. Presumably, housing is an effective development tool that should derive power from a Policy. In most countries of West Africa, the desire to own affordable and good quality housing amongst public sector employees has being a problem, hence justifying serious public and private sectors intervention [19, 12, 2, 6].

Though attempts at addressing housing challenge in Nigeria are several, there is still a huge short fall in the quantity of housing units needed for the fast growing population; currently the housing deficit is estimated at about 17 million [10]. Over the years the focus of the Nigeria's National Housing Policy has ever been in a state of flux. In 1985, the core of the policy was to ensure that the less privileged members of the society, including the wandering psychotics who require confinement and rehabilitation, have access to dwelling houses. By 1991, the National Housing Policy was redirected to ensure that all Nigerians owned or had access to decent, safe and sanitary housing accommodation at affordable cost by the year 2000.

Within the period 1985-2011, targets were set i.e. in terms of number of houses to be constructed basically through government's agencies, namely; Federal ministry of Works 'and Housing' and the Federal Housing Authority. The desired results were not achieved even though there were supporting structures and enabling Acts like:

- i. Employees Housing Scheme (Special Provisions) Act, (Cap.107).
- ii. Federal Housing Authority Act, 1990.
- iii. Mortgage Institutions Act, 1989.
- iv. National Housing Fund Act, 1992.
- v. Urban Development Bank of Nigeria Act, 1992.
- vi. Urban and Regional Planning Act, 1992.
- vii. Nigerian Social Insurance Trust Fund Act, 1993.
- viii. Federal Mortgage Bank of Nigeria Act, 1993.
- ix. National Construction Policy, 1991.
- x. National Urban Development Policy, 1997.

It is stated in the 2012 National Housing Policy, the 1991 National Housing Policy failed due to the following reasons:

- (i) Lack of political will.
- (ii) Policy inconsistency.
- (iii) Poor financing.

(iv) Weak institutional structure.

However, it is worth noting that affordable housing has been the major policy concern of relevant Housing and Mortgage Institutions since independence [18, 1, 16]. Nonetheless, critics are of the view that despite these policy efforts, only the needs of the middle and high-income classes are met [3, 15, 17, 4, 5]. One of the strategies for accessing mortgage finance adopted with respect to the 1991 National Housing policy is the adoption of a two-tier financing approach. The Federal Mortgage Bank being the apex bank provides mortgage loans to Customers through Primary Mortgage Institutions (PMIs). Moreover, the Federal government of Nigeria establishes a National Housing Fund Scheme in 1992 to mobilize funds from workers by compulsorily contributing 2.5 % of their basic earnings to the fund (intended to enable them access mortgage loans in future). This measure provided the FMBN with a continuous pool of money for use in funding housing development in Nigeria [7, 8, 9].

This paper evaluates the performance of housing finance issues under the National Housing policy. A survey of 26 selected states in the six geo-political zones of Nigeria was undertaken (Table 1). Statistical information was generated from the documents of the FMBN; these were supplemented with responses by officials of the FMBN and Mortgagors generated from questionnaires administered based on through stratified purposive sampling. Three hypotheses have been tested on the assumption that there are no significant relationships between each of FMBNs average pooled funding to low, medium and high-income housing. ANOVA and chi square tests are tools used for analysis, and the results of the analysis provides basis for making inferences and drawing certain conclusions.

#### Statement of the Housing Finance Issues

Within the period 1992 to 2008 when the National Housing Fund was introduced in Nigeria, substantial funds were lent by the FMBN to eligible individuals and organizations to help in addressing the shortage of good quality housing. However, access to the loans was adjudged low and lopsided to the inconvenience of the economically disadvantaged persons in the country [3, 15, 17, 4, 5]. Nonetheless, the FMBN denied unfairness and argued that there were deliberate effective efforts to ease the shortage of good quality housing amid eligible persons through direct loans to developers and through loans to individuals via the PMIs [8, 9, 2]. Thus, what are the realities of these claims? The search for answers to this question constitutes the focus of this study. Furthermore, the study reviewed matters arising from the scorecard of the FMBN for the period 1992 to 2010 vis-a-vis the strategic position of the National Council of Lands, Housing and Urban Development in addressing issues generated.

**Table 1 :** FMBN's average pooled funding (1992-2010) & average number of Houses. Source: Zonal offices of the FMBN, 2010. The Table gives a breakdown of FMBN's average pooled funding to various incomes Housing (1992-2010) and the population of mortgagors per category of Housing.

Name of State in Nigeria	2 Habitable Room Spaces Low-Income Housing			3 Habitable Room Spaces Middle-Income Housing			5 Habitable Room Spaces High-Income Housing		
	Average Pooled Finance s Lent. [N' M]	Average of Housing Units Realised	Persons Granted	Average Pooled Finance s Lent. [N' M]	Average of Housing Units Realised	Persons Granted	Average Pooled Finance s Lent. [N' M]	Average of Housing Units Realised	Persons Granted
1 Abia	85.8	58	59	211.9	108	105	55.1	16	18
2 Akwa Ibor	18.8	26	26	61.7	32	31	44.4	12	13
3 Anambra	08.3	152	156	83.0	44	45	47.4	16	17
4 Bauchi	52.8	149	105	655.3	355	388	154.8	51	57
5 Benue	98.6	83	85	698.0	466	454	20.3	07	08
6 Cross-River	437.7	544	493	193.1	98	96	23.1	08	10
7 Delta	42.1	52	53	38.6	20	19	22.8	06	08
8 Ebonyi	44.8	62	65	51.5	27	26	51.4	17	19
9 Edo	313.5	578	499	193.1	95	90	68.7	23	25
10 Enugu	93.1	366	447	38.9	19	18	103.1	34	38
11 FCT, Abuja	246.0	1844	1386	4514.1	2158	2103	171.7	57	63
12 Gombe	251.5	394	295	500.6	252	245	115.8	35	35
13 Kaduna	77.2	95	100	258.5	119	116	34.7	12	13
14 Kano	82.0	233	175	347.3	149	95	31.5	09	10
15 Katsina	39.4	87	91	464.4	205	143	35.1	12	14
16 Kebbi	32.6	83	85	664.6	337	328	34.9	15	15
17 Kwara	13.7	35	45	346.7	195	190	37.2	12	13
18 Lagos	142.9	495	465	987.5	488	475	82.3	30	37
19 Nassaraw	101.8	143	154	194.9	106	100	31.3	09	09
20 Niger	37.5	110	140	154.1	78	76	24.3	08	09
21 Ogun	118.5	732	601	1175.1	588	575	100.4	32	34
22 Ondo	83.4	270	250	343.5	160	120	34.7	12	13
23 Osun	41.0	103	135	39.0	20	20	34.0	11	12
24 Rivers	219.0	312	354	357.6	179	178	57.0	17	19
25 Taraba	108.3	131	148	88.1	49	48	39.7	13	13
26 Yobe	165.4	608	491	786.5	439	428	98.6	31	32
<b>Total</b>	<b>4,241.8</b>	<b>7,645</b>	<b>6,894</b>	<b>13,447.1</b>	<b>6,781</b>	<b>6,511</b>	<b>1,554.1</b>	<b>501</b>	<b>551</b>

### Methodology

Three sets of data were obtained to generate answers for the question - to what extent would each of FMBN's average pooled funding to low, middle and high-income housing during the period between 1992 and 2008 relate acceptably to the respective population of low, middle and high-income persons that accessed the bank's mortgage? Three sets of data were analysed for relationship significance. The data are:

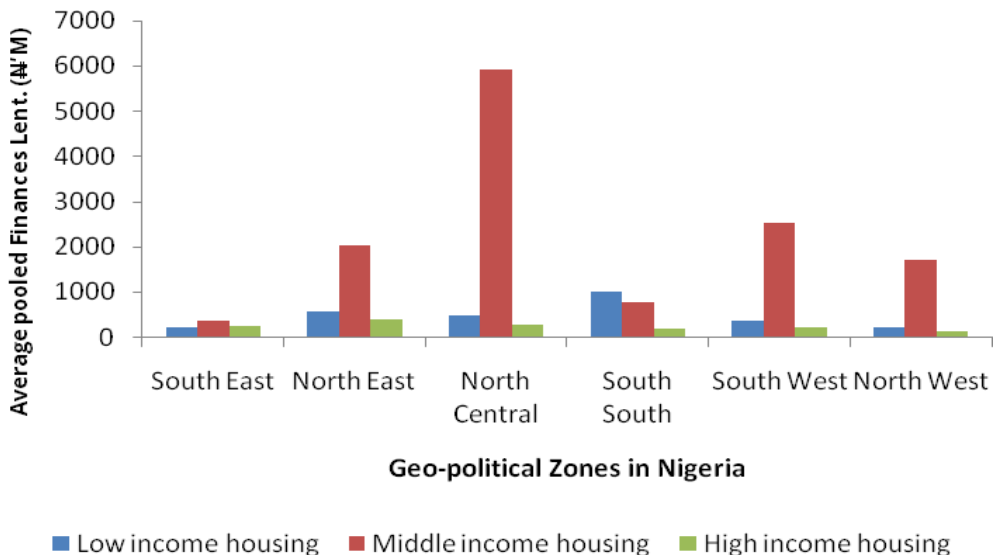
- i. The volumes of funds lent for low, middle, and high-income housing by the FMBN through direct disbursements to the accounts of property developers and through the PMIs to NHF-contributors during the period between 1992 and 2008 (Table 1).
- ii. The types and number of housing units realized from the finances lent by the FMBN for the various incomes housing in each selected state during the past 16 years (Table 1).
- iii. The character of relationships between the magnitudes of average pooled finances given out for various incomes housing and the number of persons that accessed the loans in each income group in the selected states of Nigeria (Table 1).

The data were analysed using 2-way ANOVA (Simple regression analysis), and chi-square tests for relationships and significance between them.

### Presentation of Information for the Study

#### Information on FMBN's Funded Realised Housing Units

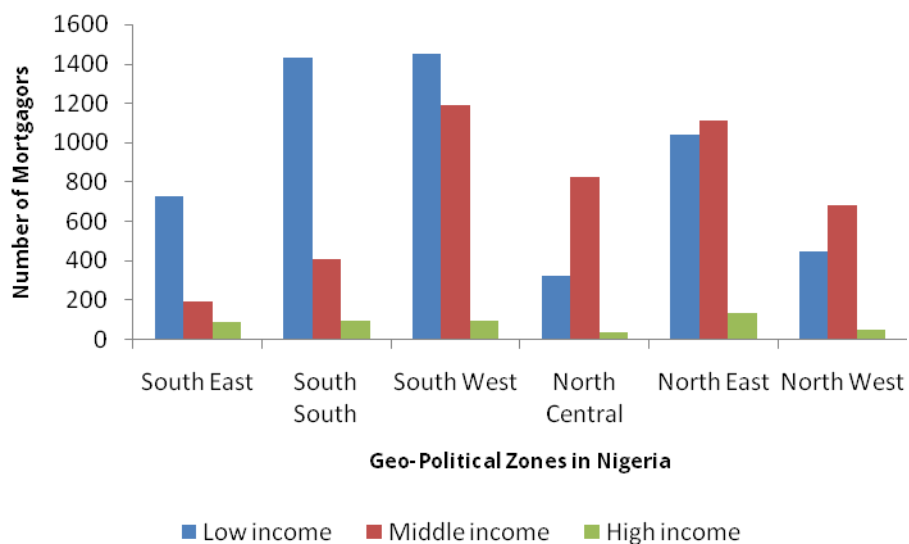
Figures 1, 2 and 3 are based on a compilation of FMBN's total funding, number of each class of housing units funded, and number of persons granted mortgage loan in 26 selected states which have been categorised into six geo-political zones of Nigeria.



**Figure 1 :** Breakdown of FMBN's Average Pooled Funding for Various Housing Types (1992-2010). Source: Zonal offices of the FMBN, 2010



**Figure 2 :** Distribution of Number of Housing units Realised. Source: Zonal offices of the FMBN, 2010



**Figure 3 :** Breakdown of population of mortgagors per category of Housing. Source: Zonal offices of the FMBN, 2010

### Regression Analyses between FMBN's Average Pooled Funding and Population of Mortgagors

FMBN's average pooled funding to various incomes' Housing (1992 - 2010) and mortgagors per income group in 26 selected States were regressed to find the best linear prediction of average pooled funding (AvFinLow) vs. population of mortgagors for the income groups considered.

#### Regression Analyses on AvFinLow and PopMotL for Low Income Group

At the national, regional, and six geo-political levels of mortgage coordination in Nigeria, weak positive relationships were established between the levels of FMBN's average pooled funding to low-income's Housing during the period 1992 to 2008 and the population of the bank's low-income mortgagors in the six geo-political zones in Nigeria. A linear Regression Equation of  $54.78 + 0.22\text{PopMotL}$  was generated. The magnitudes of the two variables are positively related with weak  $R^2$  values of 38.0%. Subsequent logarithmic, quadratic, and cubic transformations gave better lines of fit with  $R^2$  values of 49.30%, 53.7 %, and 54.0 % respectively. In the analyses, the linear P-value  $0.001 > \alpha\text{-value } 0.050$  indicates that there is no significant relationship between FMBN's average pooled funding to low-income's Housing and the population of low-income persons that accessed the finance during the period considered (Table 2).

**Table 2 :** Equations of best-fit lines between AvFinLow and PopMotL. Source: Analysis of the Data from FMBN, 2009.

Variables	Model	df (n-x)	Regression Equation	R <sup>2</sup> %	F-cal	F-tab	$\alpha\text{-value}$	P-value	Status of the Relation
AvFinLow Vs PopMotL	Linear	25	$54.78 + 0.22\text{PopMotL}$	38.00	14.72	2.06	0.050	0.001	Significant
	Log.	25	$-275.11 + 75.66\text{PopMotL}$	49.30	23.30	2.06	0.050	0.000	Significant
	Quadratic	24	$4.56 + 0.58\text{PopMotL}$	53.70	13.56	2.06	0.050	0.000	Significant
	Cubic	23	$-9.73 + 0.77\text{PopMotL}^2 + 2.40\text{E-}0.007\text{PopMotL}^3$	54.00	8.62	2.06	0.050	0.001	Significant

#### Regression Analysis AvFinMid and PopMotM for Middle Income Group

With a linear Regression Equation of  $-11.2 + 2.11\text{PopMotM}$ , the magnitudes of the two variables are positively related with extremely strong linear  $R^2$  value of 99.1%. Subsequent logarithmic, quadratic and cubic transformations gave 53.7% and about the same lines of fit with  $R^2$  values of 99.4 % and 99.4 % respectively. The linear P-value  $0.574 > \alpha\text{-value } 0.050$  means that, there is significant relationship between FMBN's average pooled funding to middle-income's Housing and the population

middle-income people that accessed the finance for the period considered. Please refer to Table 3.

**Table 3 :** Equations of best-fit lines between AvFinMid and PopMotM. Source: Analysis of the Data from FMBN, 2009.

Variables	Model	df (n-x)	Regression Equation	R <sup>2</sup> %	F-cal	F-tab	α-value	P-value	Status of the Relation
AvFinLow Vs PopMotL	Linear	25	-11.2 + 2.11PopMotM	99.10	2597.68	2.06	0.050	0.574	NS
	Log.	25	-2046 + 533.42PopMotM	53.70	27.86	2.06	0.050	0.000	S
	Quadratic	24	37.64 + 1.75PopMotM	99.40	1813.06	2.06	0.050	0.108	NS
	Cubic	23	19.45+2.05PopMotM- 0.001 PopMotM <sup>2</sup> + 2.73E 0.007 PopMotM <sup>3</sup>	99.40	1185.69	2.06	0.050	0.565	NS
	Exponent.								

#### Regression Analysis AvFinHig and PopMotH for High Income Group

The linear Regression Equation for high income is  $1.68+2.73\text{PopMotH}$ . The magnitudes of the two variables are positively related with strong R<sup>2</sup> value of 97.2. The linear P-value  $0.490 > \alpha\text{-value } 0.050$  indicates that, there is a significant relationship between FMBN's average pooled funding to high-income's Housing and the population high-income people that accessed the finance during the period between 1992 and 2010 (Table 4).

**Table 4 :** Equations of best-fit lines between AvFinHig and PopMotH. Source: Analysis of the Data from FMBN, 2009.

Variables	Model	df (n-x)	Regression Equation	R <sup>2</sup> %	F-cal	F-tab	α-value	P-value	Status of the Relation
AvFinLow Vs PopMotL	Linear	25	$1.68 + 2.73\text{PopMotH}$	97.20	834.89	2.06	0.050	0.490	NS
	Log.	25	$-127.30 + 65.18\text{PopMotH}$	91.20	248.22	2.06	0.050	0.000	S
	Quadratic	24	$-1.74 + 3.04\text{PopMotH} - 0.005\text{PopMotH}^2$	97.30	412.20	2.06	0.050	0.720	NS
	Cubic	23	$-4.07 + 3.36\text{PopMotH} - 0.02\text{PopmotH}^2$	97.30	263.50	2.06	0.050	0.730	NS
	Exponent.								

#### Matters Arising

Based on the information generated in this study, the performance of the Housing finance under the National Housing Policy during the period between 1992 and 2008 is obviously poor; only 14,666 housing units were realised across the six geo-political zones in Nigeria, which is an average of 815 units per annum. The current housing deficit in Nigeria is 17 million units, an indication that unrecorded contribution to the housing stock is quite insignificant.



The FMBN scorecard indicates the following: a cumulative NHF collection of about N94.609b, FMBN has funded housing development and loans to the tune of more than N94.919b to date. Moreover, the bank has a NHF registered contributor base of 3,735,227 and has refunded a cumulative sum of N1.520b to over 71,657 NHF contributors who have retired from their employment (presumably to acquire their retirement homes) [14].

The FMBN has underperformed and this is attributable to stagnation of the housing finance sector which in turn is occasioned by scarcity of mortgage finance, thus the bank invited the National Council of Lands, Housing and Urban Development to note the following:

- (i) That there is a huge housing deficit in Nigeria due to poor housing finance.
- (ii) That the FMBN should be recapitalized to the tune of n500b.
- (iii) That the Federal Government should make annual budgetary provision for the FMBN as contained in the Act establishing it.
- (iv) That Government at all levels should support housing provision, particularly affordable Housing with the provision of sites and services to reduce construction cost of houses and enhance affordability of Nigerians to obtain mortgage.
- (v) Urge State Governments not contributing to the NHF scheme, to commence contributions and partner with FMBN to enable their workers benefit from the Fund [14].

#### Justification for Recapitalising the Federal Mortgage Bank of Nigeria

Recapitalising the FMBN is justifiable on the premise that it is the sole secondary mortgage institution and the current paid up capital is a paltry N2.5billion (\$16,149,871) when compared with institutions of similar stature as shown in Table 5. Moreover, the capital base of PMIs has increase to a minimum of N5billion for National PMIs and N2.5billion for regional PMIs. Apparently recapitalising FMBN will translate to sustainable mortgage financing in the housing sector [14].

**Table 5 :** Paid-Up Capital of Some Mortgage Institutions across the Globe. Source: Kumo (2012).

<b>Institution/Year of Account</b>	<b>Paid-Up Capital(Us\$)</b>
Cagamas Holdings Berhad, Malaysia (2007).	40,350,978=
Hong Kong Mortgage Corporation Ltd (2007).	257,871,861=
Sociedad Hipotecaria Federal, Mexico (2008).	342,235,042=
National Housing Finance Corporation, South Africa (2010).	285,044,340=
Federal National Mortgage Association, USA (2006).	41,950,000,000=
Home Finance Company Ghana, (2011).	42,383,002=

### Recommendation and Adoption by the National Council of Lands, Housing and Urban Development

The National Council of Lands, Housing, and Urban Development adopts the prayer that there is the need to recapitalise the FMBN to the tune of N500billion (US\$3.2billion), this will enable the institution to be more effective and efficient in discharging its mandate as is the case in developed and emerging economies of the world. In addition, the Federal Government is enjoined to provide a matching grant in accordance with the NHF Act, while encouraging States to contribute to NHF as stipulated in the Act [11].

### Conclusion

The performance of the FMBN on Housing finance under the National Housing Policy during the period between 1992 and 2008 is grossly poor. A total of N19.77 billion was expended on 14,666 housing units only in the 26 States of the Federation. 65 % of the spending went to middle-income housing. 30 % went to low-income housing and 05 % to high-income Housing. However, during the period between 1992 and 2008, the fulfilment of conditions for access to FMBN's credit facilities was highest in the middle-income group.

Results of the detailed statistical analyses on the facts collected from the six geo-political zones of Nigeria revealed that:

- 1) There is a weak positive relationship between the levels of FMBN's average pooled funding to low-income's Housing during the period 1992 to 2008 and the population of the bank's low-income mortgagors. The values of the coefficients of regression ( $R^2$ ) % were found to range between 38.0 % and 54.0 %.
- 2) On the other hand, there is significant relationship ( $p > 0.050$ ) each for the relationship between FMBN's average pooled funding to middle and high-incomes Housing and the respective population of the bank's mortgagors in the middle and high-income categories.
- 3) Again, chi-square calculated-values that were higher than their respective tabulated-values ( $f_{cal} > f_{tab}$ ) were found to characterise the relationships between the magnitudes of FMBN's average pooled funding to various incomes' Housing.

Although the FMBN submits that there is paucity of funds for mortgage purposes, Low-income earners had one of the poorest accesses to the loans (Figure 1). Thus, the income group needs sufficient enlightenment and mobilization to qualify to access the loans in greater number than currently is the case. Doing this would stimulate Nigeria's economy, revolutionise the housing sector and ensure sustained environmental quality and public health. As projected in the 2012 National Housing

Policy document, 2,815,000 workforce will be created if in a year 1000-housing unit of two-bedroom apartments are be build in the 36 States of the Federation and FCT. Essentially this translates to an annual contribution of 37,000 housing units to the housing stock.

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