Mortgage Financing and Growth of Housing Sector in Nigeria

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ABSTRACT

Mortgage financing is very germane to the growth of housing sector in Nigeria. The current study investigated the attendant effects of adequate mortgage financing of housing delivery in Nigeria. The study adopted a descriptive survey research design where annualized data from 1990 to 2018 was collected to investigate how primary mortgage institutions had impacted on investments in the housing sector of the country. Ordinary Least Square (OLS) was utilized in analyzing the collected data through SPSS. The findings of the study revealed that bank credit estate had a significant positive impact on housing delivery in Nigeria while primary mortgage institution had both negative and non-significant influence on housing sector in Nigeria. The study concluded that inadequate supply of mortgage finance to the housing sector mitigates against the growth of the sector and overall economic impact. The study recommended that government and monetary agencies should execute important policies directed towards improving the activities of primary mortgage institutions for efficient performance.

Keywords: Mortgage, mortgage financing, housing, primary mortgage institutions, bank credit estate.

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1. INTRODUCTION

In the words of Okidim and Ellah (2013), housing is acknowledged worldwide as one of the basic needs for existence and survival of human beings as well as a crucial component of a country's economy. Housing is regarded as one of the three primary essentials of humanity and is a pre-requisite for physical survival of people in conjunction with food and clothing. Effective housing schemes is a requisite for stable rural and urban development in combination with social inclusiveness (Amao & Odunjo, 2014). As a result, it becomes crucial that adequate and decent shelter is provided for the citizens as this is their fundamental rights and also as a distinguishing factor of a developed economy. However in Nigeria, growth in the housing sector is a bane to human and economic growth because economic agents (individuals, households, firms and government) often rely on loan to afford assets such as real estate. Majority of owners of real estate depend on informal financial institutions such as age-grades or formal institutions like mortgage banks for financial support. This arrangement is such that loan recovery strategies are put in place by lending agencies to bridge against default.

Recognizing the importance attached to housing as presented by Abraham Maslow in his hierarchy of needs theory, Nigerian government ostensibly created the National Housing Fund (NHF) scheme in 2011 in order to drive the financing model for greater efficiency. Similarly, Primary Mortgage Institutions (PMIs) was established by the government in order to deepen the liquidity of housing business in Nigeria (Acha, 2007). PMIs accrues long term funds for the development of housing in Nigeria. In 1992, the National Housing Policy (NHP) was implemented to further enhance productivity in the sector. As a result, workers in both private and public establishments were required to contribute towards housing development. The funds generated were lent to PMIs by the Federal Mortgage Bank of Nigeria (FMBN) for further lending to economic agents.

Despite the efforts to improve the efficiency of the housing sector, the performance of PMIs has fallen so short of expectation (Amao & Odunjo, 2014). The cause of this failure can be attributed to weak corporate governance i.e. lending for non-housing purposes. Also, the inactiveness and irrelevance of the sector can be linked to inability of the financial market to lend considerable financial support to potential house-owners. Mortgage financial institutions in most cases play a crucial role in every economy towards satisfying a psychological need. In advanced countries, the practice of owning a house is through an established and effectively managed mortgage system. Moreso, only few researches have been conducted in Nigeria to elucidate the influence of Primary Mortgage Institutions on housing delivery in Nigeria. It is with this thought in mind that that spurred the current study into action to investigate the impact of Primary Mortgage Institutions' role on the growth of the housing sector in Nigeria between 1990-2018.

2. LITERATURE REVIEW

2.1 PMIs and Mortgage Financing

A mortgage is an arrangement where a borrower offers his/her legal right to possess or dispose a property as security for a loan. The borrower pays off the loan by monthly instalments of both the principal and interest. In the event that the borrower is found wanting, the lender can terminate the contract and put the property up for sale in order to recoup the money lent. Mortgage financing began in Nigeria with the advent of Nigeria Building Society (NBS) by the British colonial masters in 1957. The idea was designed to gather funds to address housing-related issues. Shortly after, Housing Corporation was established to cater for living accommodations.

In an attempt to advance the panacea to housing problems in Nigeria, mortgage institutions were required to source funds from mortgage banks for on-lending to potential house owners. Mortgage financial institutions in Nigeria includes the Federal Mortgage Bank of Nigeria (FMBN) and the many Primary Mortgage Institutions (PMIs)—which is the focus of the current study. The functions of PMIs includes but not limited to mobilization of savings, mortgage financing and investments. The deposits received by PMIs are fixed in house ownership savings accounts, personal/general savings account, education endowment savings account, target savings account and so on. These deposit accounts are the source of high deposit accumulation for PMIs which is often their primary source of income.

As posited by Agbada and Ekakitie-Emonema (2016), the amount of capital determines the amount of output produced and also, the amount of output determines the amount of savings and investments, hence, the amount of capital accumulated. Mortgage financing is one important aspect of PMIs engagement. Sanusi (2003) assert that due to the high value placed on provision of decent and affordable accommodations by the government, the CBN through its credit policies enabled commercial and merchant banks to allocate a stipulated minimum quota of their credit to finance housing programmes of the government. Finally, investment is another crucial function of PMIs. This denotes a commitment of resources i.e. money, effort and time to a project or undertaking for a profit. Agbada and Ekakitie-Emonema (2016) see investment from two perspectives with regards to PMIs' operations: housing investment and investment in assets and securities which PMIs may engage in with their surplus funds.

2.2 Lien Theory of Mortgage

The study is anchored on the Lien theory of mortgage which was authored by Hester in 1975. The view of the theory is a financing principle that withholds title deed from lender banker (Mortgagee) through a mortgage contract. Simply put, the mortgagor (buyer) keeps the property deed (document indicating ownership) throughout the tenure of the loan. The buyer promises to make all payments to the lender and the mortgage becomes a lien on the property, but title remains with the borrower (or buyer). The lender's right of ownership ceases as soon as all outstanding loans are paid off by the borrower. However, in most cases, removal of right to redeem mortgage loan for the mortgage institution (lender) may be hard to do in this regard because the buyer and not the lender is having title to the property.

2.3 Empirical Review

The study focused on impact of mortgage financing on the growth of the housing sector in Nigeria. For an elaborate understanding of the topic under discussion, different relevant empirical findings were discussed. Udoka and Owor (2017) investigated the impact of mortgage financing on housing development in Nigeria. Data was obtained from CBN Bulletin and National Bureau of Statistics spanning 1990-2014. Augmented Dickey-Fuller (ADF) unit root test was utilized to affirm the stationarity traits of the series. A long-run relationship was established among the variables using co-integration tests. Error Correction Model (ECM) indicated a causal link and dynamic interaction between the variables by Granger causality test. The findings of the study revealed that mortgage financing had a positive and significant effect on housing development in Nigeria.

Agbada and Ekakitie-Emonema (2016) studied PMIs fundamentals and Gross Domestic Product increase in Nigeria. Data used for analysis was obtained from CBN bulletin and was analyzed using multiple regression method. The findings of the study revealed that PMIs had no significant effect on GDP during the sampled period. Similarly, Hamza and Mohd (2016) assessed the constraints of owning living accommodations in Nigeria via mortgage loan by focusing on the determinants of intention of using mortgage in financing home ownership in Nigeria. Quantitative survey design was adopted by the study where a structured questionnaire was administered on 300 prospective homeowners. Partial Least Square—Structural Equation Modelling was utilized to analyze the collected data. The findings of the study revealed that religious perception on mortgage was the most significant factor that upheld the aim to use mortgage to buy residential homes. Personal opinions and feelings equally had significant impact on intention of applying mortgage financing. However, attitude and knowledge of mortgage had a non-significant impact on intention of using mortgage financing. Adetiloye and Eke (2016) investigated the relationship between financial architecture, real estate market and economic development in Nigeria. It was discovered that the Nigerian financial system had hampered development of Nigerian real estate sector, thereby aggravating poverty rate of the country.

3. METHODOLOGY

The study adopted an ex-post facto research design because the independent and dependent variables were examined in retrospect for probable variations in independent variables produced on the dependent variable. The proxy for dependent variable is Estate Outputs while the proxies for the independent variable are Primary Mortgage and Bank Credit Estate. Secondary data was used for this study where data on the variable were collected for a period of 28 years spanning 1990-2018. The data was obtained from CBN Bulletin and was analyzed using E-view.

The following null hypothesis was synthesized from the broad objective of this study
H_{01}: Primary mortgage has a significant impact on housing growth in Nigeria
H_{02}: Bank Credit Estate has no significant impact on housing growth in Nigeria

Model Specification
The model specification for this study is:

ESTOUT = f (BCEST, PMI)
ESTOUT = $\beta_0 + \beta_1$BCEST + β_2PMI + μ_t

Where:
ESTOUT = Estate Output;
BCEST = Bank Estate Credit
PMI = Primary Mortgage Institution
β_0 = constant
β_1-β_2 = coefficients of Bank Credit Estate, Primary Mortgage Institution
μ_t = error term

4. DATA PRESENTATION

Table 1: ADF Unit Root test result of Model 1

Variables	ADF @ Level	ADF @ 1 diff.	ADF @ 1 diff.	Critical value	p-value
D(BCEST)	-0.288173	-4.741331	Not tested	-3.259808	0.0027
D(ESTOUT)	-0.169446	-7.096713	-3.773550	-2.981038	0.0087
D(PMI)	-1.203026	-4.600936	Not tested	-2.998064	0.0014

Source: Researcher Compilation from E-view (version 7.0)

The result revealed in table 1 above shows that none of the variables was stationary at levels while all the variables became stationary at first level difference using Augmented Dickey-Fuller test. Since their ADF test statistics were greater than their critical values in absolute value with same order of integration except estate output that stationaries at second level, therefore, the model fit is to be used for the analytical purpose for which they were gathered.

Regression Analysis Result
Dependent Variable: ESTOUT
Method: Least Squares
Date: 16/05/2019 Time: 03:25pm
Sample: 28

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BCEST	11.51300	2.726025	4.223365	0.0029
PMI	-22.27128	15.18033	-1.467114	0.1805
C	654.1396	1114.296	0.587043	0.5734

R-squared	0.744661	Mean dependent var	4724.491
Adjusted R-squared	0.680826	S.D. dependent var	2912.360
S.E. of regression	1645.352	Akaike info criterion	17.87630
Sum squared resid	21657475	Schwarz criterion	17.98481
Log likelihood	-95.31964	Hanna-Quinn criter	17.80789
F-statistics	11.66543	Durbin-Watson stat	1.167923
Prob (F-statistic)	0.004251		

Estimation Equation:

ESTOUT = C(1)*BCEST + C(2)*PMI + C(3)
Substituted Coefficients:

ESTOUT = 11.5130000475*BCEST – 22.2712754338*PMI+654.13961247

The value of the intercept which is 654.1396 shows that growth of housing sector in Nigeria will experience 654.1396 unit increase ceteris paribus. The coefficient of Bank Credit Estate of 11.51300 shows translates that bank credit estate is positively related to growth of housing in Nigeria and that a unit decrease in bank credit estate is followed by an increase in growth of housing in Nigeria. However, the coefficient of Primary Mortgage Institution (PMI) of -22.27128 shows that primary mortgage output is negatively related to growth of Housing in Nigeria and this could be interpreted to mean that a unit decrease in primary mortgage output is followed by a decrease in growth of housing in Nigeria. Similarly, the OLS result indicates that Primary mortgage output has negative relationship with growth of housing in Nigeria. Again, the p-value shows that the coefficient is statistically insignificant. Hence, the study rejects the null hypothesis and conclude that primary mortgage output has no significant impact on the growth of Housing in Nigeria.

Also, the OLS result revealed that bank credit estate has positive relationship with growth of Housing in Nigeria. Again, the p-value shows that the coefficient is statistically significant. Therefore, we reject the second null hypothesis and conclude that bank credit estate has a significant impact on the growth of housing in Nigeria. Durbin Watson Statistics: The DW computed is 1.166543, at 5% level of significance with three explanatory variables and observations. Therefore, the study concludes that there is evidence of serial correlation.

5. CONCLUSION

Housing is acknowledged as one of the key forces for human development in a country. The importance of housing is appreciated by monetary authorities and government, hence, it requires much attention. The study was spurred to action to investigate the impact of mortgage financing on housing sector growth in Nigeria. However, the findings of the study revealed that bank credit estate has a positive influence on housing sector in Nigeria. The findings of the study also revealed that primary mortgage institutions has a negative and insignificant relationship with the growth of the housing sector in Nigeria.

6. RECOMMENDATION

Based on the findings of this study, the following were recommended:

a) Government and monetary authorities should make crucial policies to improve activities of PMIs for optimal performance.
b) Appropriation for housing market should be increased to promote housing purchase as well as dilapidating ones.
c) Access to PMI mortgage loans should be made easier at a lower rate.

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