CENTRAL BANK OF NIGERIA

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Occasional Paper No. 74 ASSESSMENT OF THE PERFORMANCE OF NATIONAL HOUSING FUND (NHF) IN NIGERIA August 2020

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Research Department
Central Bank of Nigeria
Abuja

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EXECUTIVE SUMMARY

Housing delivery is indispensable to achieving a productive economy and attaining sustainable economic growth. The recognition of the importance of providing affordable housing has continued to inform the attention given to housing deficit in both developing and developed countries. However, in most underdeveloped economies such as Nigeria, the provision of good housing has been a herculean task, despite the plethora of policies, programmes and strategies pursued to tackle housing deficit.

To reduce the growing deficit in housing delivery in Nigeria, the National Housing Fund (NHF) was established in 1992. This was necessitated by the fact that workers may not be able to muster enough savings to own houses given their limited incomes. Consequently, Government found it imperative to institute the NHF to encourage workers to save and get long-term financial support from the Fund to enable them own houses.

The broad objective of this study was to assess the performance of the NHF in meeting the housing demand of Nigerians. Specifically, the study sought to determine the: ease of access to the NHF by eligible Nigerians; extent to which the Fund had provided long-term loans to mortgage institutions for on-lending to contributors; and; challenges encountered by stakeholders in implementing the Fund.

To achieve these objectives, we employed quantitative and qualitative data analysis techniques. Descriptive analysis was carried out to observe the unique features and relationship among the variables. Three types of questionnaires were used to collect relevant information from beneficiaries, developers and the Primary Mortgage Banks (PMBs). The study adopted the case study approach in two locations of the Federation; Lagos and Abuja, which are the hubs of the NHF in Nigeria. The study covered the period 2012 to 2017.

A total of one hundred and fifty (150) beneficiaries, twenty-two (22) developers and thirteen (13) Primary Mortgage Banks (PMBs) were surveyed in the two locations. The selection of respondents was done randomly from the available records obtained from the Federal Mortgage Bank of Nigeria (FMBN). The completed questionnaires were analysed using Statistical Package for Social Science (SPSS version 13).

Findings of the study are presented under the following themes;

a. Awareness of the Scheme

Survey findings revealed a fair level of awareness of the Scheme with the PMBs being the major source of information dissemination of the Scheme.

The study revealed that 49.0 per cent of the respondents were introduced to the Scheme by the PMBs, while 23.0 per cent learnt about the Scheme through their employers. Furthermore, 12.0 per cent got information through colleagues/friends/family members, while 7.0 per cent through the FMBN Staff.

b. Gender Characteristics of NHF Beneficiaries

A fair gender balance in the usage of the Scheme was ascertained. Thus, 57.0 per cent of the respondents that accessed NHF were males while the remaining 43.0 per cent were females.

c. NHF Loan Approval Rate

The study revealed that the PMBs indicated that out of 21,450 NHF loan applications received from 2012 to 2016, 18,070 were approved, representing 84.2 per cent of the total loan applications. The sum of ₦19.7 billion was disbursed to the beneficiaries during the period.

The high approval rate reported by the PMBs was also corroborated by the beneficiaries who reported that 66.0 per cent of them obtained loan approvals while 27.0 per cent of total applications were being processed. The remaining applications (7.0 per cent) were turned down.

d. Processing Period for the NHF Loan Applications

The study found that 70.0 per cent of PMBs indicated that it took more than 12 months, on the average, to process a mortgage facility from the NHF, while 20.0 per cent indicated about 6 to 12 months. The remaining 10 per cent of respondents indicated about 6 months. This implies that the length of time it took for an application to be processed was partly responsible for the low patronage of the Scheme.

e. Occupational Distribution of NHF Beneficiaries

Beneficiaries of NHF loans were disaggregated on the basis of occupation-type. This comprised civil servants, organised private sector employees and self-employed persons. The study revealed that civil servants were the largest beneficiaries of the Scheme, accounting for 49.4 per cent. This was closely followed by the employees from the organised private sector made up 41.3 per cent, and the self-employed group, with 9.3 per cent.

It is however, pertinent to note that, out of the total approved applications of 18,070, only a meagre 2,967 applicants benefited from the Scheme, representing a disbursement rate of 16.4 per cent only.

f. Supply and Demand of Houses

Findings from the study revealed that three-bedroom bungalow house-type was the most supplied by developers during the survey period. Out of 11,978 housing units supplied, the three-bedroom bungalow house-type accounted for 54.0 per cent. This was followed by two-bedroom, duplex and apartment (flats) house types with 32, 9 and 5 per cent, respectively. One-bedroom house-type was the least supplied at 1 per cent.

In terms of demand by the beneficiaries, the study revealed that majority of the respondent beneficiaries preferred two-bedroom apartment types, accounting for 42.4 per cent of the total beneficiaries. This was followed by three-bedroom (40.9%), apartment (10.6%), Duplex (4.5%) and 1 bedroom (1.5%).

g. Loan Default Rate

Analysis of survey returns revealed that one in every five disbursed loans went into default. Despite the slight improvement of 20.9 per cent witnessed in 2014 compared with 23.8 per cent in 2012, the rate of loan default witnessed a sharp increase to 45.8 per cent in 2015 and further to 59.6 per cent in 2016.

Various reasons were provided for the high default rate experienced by the PMBs. Twenty-nine per cent was attributed to job loss; and 14.0 per cent to the demise of the mortgagor. Others were unwillingness of the customers to repay (14%) and non-payment by employer (14%). Other reasons given for default were lack of constant follow-up on the mortgagor, which accounted for 10.0 per cent. Also, change in national economic situation accounted for 9.0 per cent, while reduction in disposable income and bad credit character accounted for 5 per cent, apiece.

In addition, the study revealed 36.0 per cent of the beneficiaries defaulted due to the delay in payment of salaries, while 18.0 per cent was due to job loss and high cost of living, respectively. "Other reasons" accounted for 27.0 per cent of the default encountered in the scheme.

h. Risk Mitigation Strategies by PMBs

Various risk mitigation strategies which were adopted by the PMBs to reduce the incidence of loan default were also observed. On a scale of 1 to 7, Insurance and custody of title document(s) were the highest with 7 points, each. This was followed by the request for post-dated cheques and standing order with 5 points, apiece. Use of guarantors was 4 points while direct debit and salary domiciliation accounted for 3 points each.

i. Challenges Faced by the Stakeholders in the Scheme

Various challenges faced by the stakeholders were identified. These are grouped in the order below.

1. Primary Mortgage Banks

The survey on the operational challenges faced by the PMBs showed that ineffective foreclosure process accounted for 17.0 per cent, while 15.0 per cent each was adduced to documentation and registration of titled properties, and high interest rates, respectively. Other challenges were the inability to source long term funds (14.0 per cent), excessive bureaucracy and low returns from mortgage financing accounted for 12.0 per cent. Government interference in the operations of the FMBN and frequent changes in government policy scored 9.0 and 6.0 per cent, respectively.

2. Estate Developers

An analysis of the challenges faced by the developers showed that 24.2 per cent of developers attributed the high cost of building materials as their greatest challenge, while 16.7 per cent indicated delayed disbursement by the PMBs and 12.1 per cent reported government interference. Also, frequent changes in government policies and the difficulty in acquiring land with title documents accounted for 10.6 per cent apiece, while excessive bureaucracy at the FMBN and lack of capacity in the PMBs were rated 7.6 per cent each. Similarly, difficulty in the issuance of Certificates-of-Occupancy, withholding of part-payment by FMBN, as well as poor public awareness of the NHF constituted 3.0 per cent each, while 1.5 per cent attributed the operational challenges to default in payments.

3. Beneficiaries

From the survey returns, challenges faced by the beneficiaries included long processing time with the highest score of 35 points, followed by equity contributions with 20 points, while cumbersome documentation was the least at 14 points.

j. Assessment of Transparency of the NHF

The study showed that 51.0 per cent of the respondents rated the Scheme as 'fairly transparent', 38.0 per cent 'very transparent', while 11.0 per cent rated the Scheme as 'not transparent'.

Study Recommendations

Based on the findings of the study, the following recommendations were proposed for consideration and adoption;

i. Review of the loan processing time to make it more efficient;
ii. The effective collaboration between the CBN and the FMBN to ensure efficient supervision and timely correction of erring PMBs participating in the Scheme;
iii. The FMBN should intensify efforts to create awareness about the National Housing Fund to increase participation of prospective home owners;
iv. The NHF loan application and monitoring process needs to be automated. An online real time platform that would enable applicants track the status of their applications should be developed to promote efficiency and transparency.
v. Developers should be encouraged to patronise locally-made building materials in order to bring down the cost of construction;
vi. The government should institutionalise a mechanism that will compel the state governments to fulfill contractual obligations regarding the Scheme;
vii. To increase the pool of funds in the NHF, government should provide additional funds, increase the capital

base of the FMBN and monthly contribution by the NHF contributors;

viii. Ensure that the high default rate is mitigated by compulsory adequate insurance cover on mortgage loans and salary domiciliation; and

ix. The PMBs should ensure that loan facilities are in consonance with the financial capacity of the prospective applicants to reduce drastically loan defaults.

1.0 INTRODUCTION

1.1 Background

Housing plays an important role in the socio-economic development of a nation. Provision of adequate and qualitative housing for the citizen is a sine-qua-non to a highly productive economy. In other words, housing delivery either through the public or private or both is indispensable to achieving productive economy and sustainable economic growth. It is the recognition of the crucial position of robust housing programme to sustainable economic growth and improved social well-being that has informed the attention given to housing deficit in both the developed and developing countries. The importance of housing is manifested by the fact that it is one of the indicators for generating cost of living index a major consideration for prospective domestic and foreign investors. Most importantly, housing is one of the basic necessities of life, which is required to further promote smooth cooperation between the governments and the governed. However, in most developing economies such as Nigeria, the provision of adequate and good housing has been a herculean task, despite the plethora of policies, programmes and strategies enunciated to tackle the housing deficit. It is a major challenge of growing urbanisation which has continued to generate public discourse on the best lasting and sustainable solution to effectively tackle the untoward development.

Nigeria is, perhaps, one of the fastest urbanising countries in Africa. The National Population Commission, using an estimated annual growth rate of 3.2 per cent, puts Nigeria's population in 2016 at 182 million and the proportion of the Nigerian population living in urban centers has increased considerably over the years. According to the Federal Mortgage Bank of Nigeria (FMBN), the housing deficit is estimated at about 17 to 20 million housing units as at 2016 with a potential cost of ₦6 trillion (US$16 billion), and 900,000 annual unit deficit increase (Center for Affordable Housing Finance in Africa (CAHF), 2017).

Like other developing countries, a number of challenges are militating against an optimal performance of institutions providing housing in Nigeria. These challenges, which are both contextual and organisational, are manifested in low productivity and poor quality, but expensive housing. The costs of houses are escalating due to high rates of urbanisation and population growth (Akinmoladun & Oluwoye, 2007; Olotuah, 2010), limited access to land and other housing inputs (Ikejiofor, 1999; UN-HABITAT, 2006), and low capacity of public housing agencies (Bana, 1991; Emeriole, 2002). As a result, public housing schemes have been criticised for failing to generate tangible and sustainable housing production, distribution and acquisition mechanisms to meet increasing housing demand, particularly by low-income earners (Mba, 1992; Olotuah & Bobadoye, 2009).

Although, various administrations in Nigeria have taken housing policy as a major priority, the country is yet to develop a vibrant mortgage market. Individuals are compelled to use their private savings to build houses, through traditional method of buying land and constructing buildings while relying on self or community efforts. This could take several years to complete and in many cases, such buildings are left uncompleted.

To ameliorate the housing needs of Nigerian workers, the National Housing Fund (NHF) was established in 1992. The establishment of NHF was necessitated by the fact that due to economic realities in relation to their incomes, workers may not be able to muster enough savings to own their personal houses. Consequently, Government was, therefore, compelled to institute the NHF to encourage workers to access long-term financial support from the Fund to enable them own houses. This is expected to boost their productivity and enhance service delivery for rapid growth and development. The Fund, as practiced globally, is a pool to which workers contribute and from where they qualify to benefit or withdraw in due time in order to actualise their housing needs.

Moreover, the sector, being a labour intensive one, has huge potentials for employment creation if properly developed. Hence, given the contribution of employment to growth, undertaking a study of this sector is crucial to economic development. Finally, the mortgage finance sector, being a component of the financial system makes its stability and growth of high relevance to the CBN. This has necessitated the support given to the housing sector by the Bank in the form of active regulation of the Federal Mortgage Bank of Nigeria and other primary mortgage Banks as well as the establishment of the Nigeria Housing Finance Programme in collaboration with other stakeholders.

The broad objective of this study is to assess the implementation of the NHF in meeting the housing demand of Nigerians. The specific objectives are to determine the:

a. Adequacy and the Ease of access to the NHF by eligible Nigerians.
b. Extent to which the Fund has provided long-term loans to mortgage institutions for on-lending to contributors.
c. Challenges encountered by stakeholders in implementing the Fund.

This study consists of five (5) sections. Section 1 gives a general background to the Study and its objectives. Section 2 reviews existing theoretical and empirical literature. Section 3 presents a review of the housing and mortgage industry in Nigeria. Section 4 presents the methodology for the study and provides the survey findings. While the summary, recommendations and conclusion is presented in section 5.

2.0 THEORETICAL BACKGROUND OF HOUSING FINANCING

Housing finance refers to money provided by any source other than the residents' or builders of the dwelling for the construction or purchase of housing. It includes funds loaned to builders and mortgage funds loaned to individual families by private or public banks, or other types of financial institutions. It also includes various types of housing subsidies provided by government agencies (United Nations, 1974). Housing finance can be obtained from an informal (family, relatives, friends and other unorganised) sources, a system mostly dominant in less developed economies. It could also be obtained through a formal or organised housing finance system.

A housing finance system comprises financial institutions, and legal status, administrative procedures and the relationships as well as markets which link them. That is, it is a superstructure of laws, institutions, and relationships between institutional and non-institutional units which facilitate the processes of financial intermediation and capital formation in the housing sector. A well-developed housing finance system could be seen as one which significantly facilitates the purchase, rental, construction and improvement of homes for the population as a whole. In particular, it should be able to accomplish this objective effectively and economically for those least able to afford housing, namely, for households in the lowest income groups and for those otherwise economically disadvantaged in the context of the high cost housing.

A mortgage is a debt instrument, secured by the collateral of specified real estate property that the borrower is obliged to pay back with a predetermined set of payments. Mortgages are also known as "liens against property" or "claims on property." Mortgage financing is used by individuals to acquire a home without paying the entire value of the purchase up front. Over a period of many years, the borrower repays the loan, plus interest, until he or she eventually owns the property. Mortgage involves the transfer of an interest in land as security or a loan or other obligation. It is the most common method of financing real estate transactions. The mortgagor is the party transferring the interest in land. The mortgagee, usually a financial institution, is the provider of the loan or other interest given in exchange for the security. Normally, a mortgage is paid in installments that include both interest and a payment on the principle amount that was borrowed.

The concept of mortgage lending originated in England under Anglo-Saxon law. Originally, a borrower (mortgagor) who needed to finance the purchase of land was forced to convey the property's "title" to the lender (mortgagee) to guarantee the debt obligation. If the obligation was not paid, the borrower automatically forfeited the land to the creditor, who was already the legal owner of the property. The difficulty with this arrangement was that the lender was the absolute owner of the property and could sell it to a third party or refuse to re-convey it to the reverser, who was also stripped of his principal means of repayment and therefore in a weak position (Jones, 1904).

By the 13th century, in England and Scotland, the mortgage was limited to an agreed term of years and contained a forfeiture proviso, that, if after the term the debt was not repaid, title was forfeited to the lender i.e., the term of years would expand automatically into a fee sample. This is known as a shifting fee and was sufficient to entitle the borrower to bring an action for recovery. However, the royal courts increasingly did not respect shifting fees since there was no livery of *seisin* (i.e., no formal conveyance), nor did they recognize that tenure could be enlarged, so by the 14th century, it became invalid.

2.1. Theories of Housing Development

A. Investment-Based Theory

James Poterba (1984) posited the investment based theory that emphasized the supply of housing as a function of series of economic factors, such as real house price, cost of new construction, land and credit availability. He specified three basic assumptions in relation to this theory. First, that housing industry is composed of competitive firms and the industry's output is dependent on the real price of housing construction. Second, there are limits to materials of production and third, increase in demand for housing leads to growth in equilibrium price structure of housing. According to him, the major determinants of housing supply are credit availability and cost of construction. An increase in the price of construction of housing, initially results in a decrease in the demand for housing while a positive change in credit availability raises housing investment. Topel and Rosen (1988) also augmented Poterba's proposotion that interest rate, inflation and expectations were also important factors in the determination of housing supply and demand.

B. Finance-Based Theory

Renaud (1987) argued that sources of funding and financing determine housing production and situations, especially their visual appearances. In this sense, he noted that "cities are built the way they are financed". The theory identified three ways in which housing production systems are shaped by their financing as follows.

First, informal financing, which relies on small, very localised, mutual and irregular forms of finance usually dependent on common local bonds. It involves pooling savings through rotating saving and credit associations (ROSCA). He stated that, informal housing finance leads to incremental forms of housing investment - most investment, where owners become `self-developers' who rely on small crafts and trades to build their housing units. This process dominates cities in developing countries, and explains why neighborhoods in these cities look like endless, almost permanent, construction sites.

Second, the private bank financing, which is the desirable way of supporting urban investment, as it facilitates the production of a diversified stock of completed housing units. These housing units are built in a relatively short time, by experienced professional developers that are usually organised into a very competitive real estate industry with a wide variety of enterprises of all sizes.

The third form of housing financing under this theory is the state financing model. This is easily identifiable as they are large-scale housing projects that appear as standardised, monotonous units of relatively high cost, but low value for their occupants. An often poorly understood but serious side-effect of the state financing model is that it could block the development of the network of skills and professions needed for an innovative and dynamic real estate industry. These professions include property appraisers, brokers, credit bureau, mortgage registries and real estate advisory services that are crowded out by rigid state administrative processes and inappropriate regulations. In market economies, these professions employ 3 to 4 per cent of the labour force. In housing systems dominated by state finance, the scarcity and poor quality of information constitutes a serious obstacle to efficient investment and innovation. The rapid development of competitive private commercial housing finance is essential to finance the massive waves of urbanisation that developing countries now face.

C. Urban Spartial Theory

The Urban Spartial Theory of housing propounded by DiPasquale and Wheaton (1994) asserts that housing stock depends on urban population, series of economic factors, cost of new construction activity and more importantly on credit availability. A greater density of population in the metropolitan area leads to a high demand for housing. Basically, an increase in cost of building activity leads to abnormal increase in house prices. The urban spartial theory emphasises that there is a relationship between stock of housing and urban population. An increase in population positively increases the demand for housing, thereby causing the price of housing to increase.

D. Equitable Theory

The equitable theory, also called lien theory, treats mortgages as instruments granting security rights to a lender, but legal title remains with the borrower at all times. In lien theory, lenders must usually resort to judicial foreclosure and obtain a court order authorising sale of the property to satisfy a debt. The alternative is the title theory of mortgages, in which the borrowers transfer legal title to the lender, who holds it in trust for the borrower under a deed of trust. Foreclosure in such states is non-judicial because the lender already has the legal title. Some adopt hybrid theory and transfer title to the lender in an instrument called a mortgage rather than a deed of trust but allow non-judicial foreclosures (Evans, 2007).

2.2 Empirical Literature

A number of studies have been carried out to assess the impact of the NHF in the Nigerian mortgage industry over the years. Anyanwu (1991) appraised the performance of the FMBN, DMBs, and Insurance Companies on housing finance delivery in Nigeria. He observed that finance, which is essential to any housing programme, is in short supply. Housing is just one of many national priorities that compete for Government funding, and because it represents large investments and long-term commitments, it is unattractive compared to other investment options. The paper also noted that the ability of the institutions to meet the financial needs of the housing sector is constrained by inadequate funds (particularly long-term capital), loan defaults and recovery problems; absence of secondary mortgage market and guarantees; mass poverty; rising population, urbanisation, high cost of building materials and inflation.

Ogedengbe and Adesopo (2003) examined the problems of financing real estate development in Nigeria, using survey methodology. The study revealed that high interest rates and several other requirements for loan bedeviled the financing of real estate properties in Nigeria. Mailafia (2007) observed that the poor performance of the Nigerian housing finance system could be attributed to low accessibility, underdevelopment of the land tenure system and the inability of financial systems to provide low cost finance.

Oduwaye et al. (2008) using survey analysis and secondary data highlighted that the National Housing Fund policy, The Land Use Act of 1978, structure of primary mortgage institutions and high interest rates posed constraints to mortgage financing in Nigeria.
Jiboye (2011) examined basic issues relating to achieving sustainable development in housing through good urban governance in Nigeria. The study noted that the problem of providing adequate housing has long been a concern, and underscored the need for good governance through the application of appropriate development strategies that could enhance optimum utilisation of existing resources for effective housing delivery. It also highlighted the need to stimulate a policy

that will facilitate infrastructural development alongside housing delivery.

Adedokun et al. (2011) also found that there was a wide difference between the amounts of mortgage applied and the amounts approved in addition to the fact that the number of primary mortgage banks in the country was grossly inadequate.

Ijaiya et al. (2012) carried out a study titled "Microfinance and Mortgage Financing in Nigeria: a Rural Experience". Using the primary survey approach to obtain data and multiple regression analysis. The results showed that the credit facility provided through informal micro financing in the sample area was used for housing purposes by the respondents. The study recommended the establishment of a regulatory body that would ensure quality of houses constructed to remove the risks involved in the purchase of land and ensure security of tenure.

Kama et al. (2013) found that there is a low awareness about existing mortgage financing arrangements, low financing capacity of the mortgage institutions, and weak title or legal framework, among others, as the major impediments to the growth in the housing sector. The study recommended that implementation of the revised Primary Mortgage Bank guidelines, identification of new sources of financing for mortgage institutions, streamlining of title/legal documentation framework and an active participation of the private sector (including cooperative and credit unions) would position the sector to perform optimally and contribute to the overall economy.

Ugonabo and Emoh (2013) examined the major challenges militating against housing development and delivery in Anambra State, Nigeria. The paper highlights the factors inhibiting effective housing development and delivery in the state to include lack of secure access to land, high cost of construction, limited access to finance, bureaucratic procedures, high cost of land registration and titling, and uncoordinated policies and implementation at Federal and State levels. Others were ownership rights under the Land Use Act, lack of critical infrastructure, inability to purchase mortgages due to high cost, inefficient development control activities, youth's harassment of developers, inelegant revocation and compensation process. Against this back drop, the study recommended the need for a holistic approach to housing development and delivery that will involve the Federal Government, the State Government and the private sector.

Akunnaya et al. (2015) investigated housing aspiration among the residents of Ayobo, Lagos, Nigeria. The study administered a cross-sectional survey of 1,151 households, majority of whom were low-income earners living in rented and rooming-house types of accommodation. Employing descriptive statistical and categorical regression analyses on a structured questionnaire, the findings indicated that approximately 73 per cent of the respondents expressed the intention to move to another residence, while 56 per cent of this category of respondents intended to move into self-contained flats. The reasons for the planned relocation included poor condition of their present dwellings, changes in tenure status and household size, and the desire for exclusive use of facilities in their homes. In addition to these reasons, the strongest predictors of housing aspiration among the respondents in the survey were the waste-disposal method, sharing of facilities, employment, age and marital status. This finding is consistent with the expectation that to meet the housing preferences and aspirations of residents in informal urban settlements in Nigeria, developers need to give adequate attention to marital, age, employment and tenure status. Furthermore, emphasis should be placed on developing affordable single-family houses and block of flats, improved access to basic social amenities and services.

2.3 Housing Delivery and Finance Systems

2.3.1 Housing Delivery System

There are various systems of housing delivery. Three of these are discussed below:

A. The Site and Services Approach to Low-Income-Housing

This is a situation where a developer provides clean water, sewage, roads, drainage, electricity and individual connections to services, leaving landed space for the construction of buildings. Interested beneficiaries build on the serviced plots through self-help, community/co-operatives or by other means.

B. Self-Build Housing

This system is predominantly carried out under a variety of forms. It can be categorised into three main types: Full, subsidised and co-operative self-build. This system refers to dwellings built by households without financial assistance from public authorities, materials, design and construction. Subsidised self-build relies on the initiative and labour of individuals. While local authorities provide limited financial support to these individuals. Co-operative self-build, on the other hand, refers to a scenario whereby different households come together and provide mutual labour support for the construction of their respective dwellings.

C. Co-operative Housing Approach

The Limited Equity Housing Co-operative (LEHC) is a group home ownership that provides benefit for the individual home ownership. Exemptions such as property tax are enjoyed by homeowners by deducting the share of mortgage interest and property tax from their income tax returns. All legal documents of the project remain in the name of the cooperative, who sees to the payment of any loan and all expenses incurred. Members buy a share in the co-operative to obtain the right to occupy an individual dwelling, then they pay from 5 to 10 per cent of the market value of the property. On the other hand, the cooperative borrows the rest of the investment money using the project as collateral for the loans.

2.3.2. Housing Finance Modalities

Housing finance systems differ from country to country because each housing finance system is unique to the local feature of each country, with due cognisance to the legal, cultural, economic, regulatory and political environment. The different housing finance systems include:

A. Micro Finance for Housing

Under this modality, housing micro credit loans range between USD 300 and USD 5,000, depending on the clime. The loan duration varies according to the purpose. For home improvement loans, the variation is between 2 months and 2 years, whilst for land purchase or construction loans from 2 to 5 years. Housing micro loans are largely unsecured or non-collateralised. The interest rates are usually higher than those charged by the commercial banks, because of the high risk of exposure. Providers in several climes attempt to reduce the risks by using savings as a security of repayment or demand co-signers for a loan as an alternative type of security. Countries which have implemented micro finance for housing include; Bangladesh, Bolivia, Indonesia, Uganda, Ghana, Kenya, Colombia, Mali, El Salvador and Mongolia.

B. Community Based Savings Schemes

This modality requires small savings deposits of members of a community-led organisation to be brought together. Over time the savings build up significant capital resource from which members can take a low interest loan for housing improvements. Variations of this scheme promote credit access to the poor.

C. Guarantee Structure

This is a structure operationalised in the Netherlands. Housing associations wishing to take out a loan to construct or improve its property, apply to a bank on behalf of their association. The guarantee structure minimises the financial risks for the sector collectively, making credit risk negligible. The housing associations borrow money from the capital market at an interest rate lower than the market rate. This lower interest rate consequently reduces the rent by up to 10 per cent.

D. Rent-to-Mortgage Housing Schemes

The rent-to-mortgage allows a buyer purchase a property for a portion of the right-to-buy price. This portion payment allows the landlord retain a share in the value of the property. There is a minimum and a maximum payment, the minimum payment is the amount the bank is willing to lend the buyer on a standard 25- year mortgage, considering the same monthly repayment as the current rent price of the buyer. The maximum payment however is 80 per cent of the right-to-buy price. The UK's rent-to-mortgage scheme is derived from the right-to-buy scheme.

E. Deduction of Taxes for Homeownership

Under this modality, all households are allowed to deduct mortgage interest payments paid for the main house from income taxes. This is a practice common in the Netherlands, where housing is subsidised in the owner occupier scheme, which accounts for roughly 55 per cent of all housing. In addition, housing subsidies are also granted by the government to assist the poor own homes.

F. Housing Banks

This model provides mortgage loans for low- and medium income households. A borrower can take a loan up to 80 per cent of the total value of the property, choosing between a fixed and an adjustable interest rate. The loan tenure is a maximum of 25 years. The Government Housing Bank (GHB) in Thailand is an example of this form of financing. This model is also used in Nigeria.

G. Special Housing Funds

This is a form of soft loan, micro financing or grant money, accessible to low income groups. Money accessed via this medium is to be used for housing-related purposes such as the purchase of a house, repair and self-build of a home. Variations of this model exist depending on how the funds are accessed and distributed. For example, it can be both privately or publicly funded, often the latter is the case.

3.0 REVIEW OF HOUSING MORTGAGE/INDUSTRY IN NIGERIA

3.1 Evolution of Housing Finance in Nigeria

The evolution of housing finance in Nigeria spanned several years. It began with the establishment of the Nigerian Building Society (NBS) in 1956, which instigated regional governments to set up housing corporations, savings and loans, and cooperative banks to provide funds in the form of mortgage credit for housing development. Following the Indigenisation Act (1972) which among others, aimed at promoting and transferring the ownership and control of foreign enterprises to Nigerians, the Nigerian Building Society was renamed in 1977 and metamorphosed into the Federal Mortgage Bank of Nigeria, (FMBN) to reflect the 100 per cent ownership by the Federal Government. Following the establishment of the FMBN, its capital base was increased from ₦20 million in 1977 to ₦150 million in 1979, as at 2018, FMBN capital base stood at ₦5 billion.

The FMBN was the only public mortgage institution in Nigeria until 1989, when the Mortgage Institutions Act was passed. The Act formally recognised the two-tier system of housing finance. The Primary Mortgage Banks (PMBs) mobilise savings from the public and grant housing loans to individuals while the FMBN mobilises long-term capital funds for the PMBs (Sanusi, 2003). As part of the implementation of the National Housing Policy of 1991, National Housing Fund (NHF) Decree (now Act) No. 3 of 1992 was enacted. National Housing Policy enabled the establishment of the Federal Housing Authority, (FHA), as well as the NHF, which serves as the financial component of the policy. The FHA was required to implement government housing programmes from government allocated funds, provide low income houses in the country and engage in real estate development on a commercial and profitable basis.

In 1994, the FMBN was accorded the status of the apex mortgage institution, and relinquished its retail function to Federal Mortgage Finance Limited (FMFL), which was carved out of the FMBN. The new policy restructured the FMBN into a Federal Government-Sponsored Enterprise (FGSE), with more focus on secondary mortgage and capital market functions. As an FGSE, the FMBN is expected to function as a government institution operating under the tenets of profit-making and efficiency. However, the FMBN operating as the secondary mortgage market was confronted with challenges of funding the PMBs. In view of that, the Presidential Committee Report on Housing and Urban Development assigned significant role to the estate developers and this brought about the Estate Development Loans (EDLs) which commenced in 2003.

In order to further bridge the financing gap in the mortgage industry, the Deposit Money Banks (DMBs) were given opportunity to acquired or established PMBs as their subsidiaries under the 2001 Universal Banking Model.

The FMBN further expanded its functions, from social housing on-lending under the NHF to include commercial on-lending for housing, commercial mortgage refinancing, mortgage purchasing/warehousing and mortgage-backed securitisation. It also launched the Informal Sector Cooperative Housing Scheme (ISCHS) in 2011, with the aim of tapping into Nigeria's large informal sector of the economy so as to ensure that the informal workforce contributes and benefits from the NHF.

3.1.1 Products and Services under the FMBN

In order to further increase access to housing financing in Nigeria, the FMBN developed various products that can be accessed by NHF contributors. These are;

a. NHF Mortgage Loan

The NHF Mortgage Loan is granted at 4 per cent interest to accredited PMBs for on-lending at 6 per cent to NHF contributors over a maximum tenor of 30 years, which is secured by the mortgaged property. A contributor can access up to ₦15 million from the Fund through an accredited and licensed PMB as a mortgage loan to build, buy, improve or renovate own home after 6 (six) months of continuous contributions. From inception in 1992 to 2017, the sum of ₦263.1 billion has been collected from beneficiaries while ₦84.6 billion has been disbursed to 18,936 beneficiaries as at September, 2018[1].

b. Estate Development Loan (EDL)

The EDL is a facility granted to private developers, State Housing Corporations and Housing Cooperatives to bridge the housing deficit through mass production of houses for ownership by NHF contributors. The facility is granted at 10 per cent interest with a

1. Data used in this section was obtained from the Federal Mortgage Bank of Nigeria.

maximum repayment period of 24 months. It is a facility devised to facilitate large scale production of houses for sale to contributors at affordable prices and thereby, expand the availability of affordable housing in Nigeria. As a general policy of the Bank, houses produced through the EDL window should not exceed ₦15 million in price and must be sold only to NHF contributors. From inception to September, 2018, the sum of ₦74.5 billion had been disbursed to 23, 090 beneficiaries under this Scheme.

c. Home Renovation Loan

The Home Renovation Loan is to afford Nigerians an opportunity to access mortgage loans for the renovation or improvement of their existing homes. The product is specifically designed for Nigerians who are contributors to the National Housing Fund and desire to renovate or improve existing properties which are personally owned by them or through family ownership. From January 2015 to December 2018, the sum of ₦14.1 billion had been disbursed to 17,062 beneficiaries under the scheme.

In addition to these schemes, the FMBN has recently approved two new schemes to further increase access to home ownership in the country. These were, **rent-to-own scheme**, which would enable beneficiaries own their homes through accumulated rent payments over mutually agreed period. The second Scheme, **the NHF home construction loan scheme**, enables beneficiaries' access loan facilities for the purpose of house construction. It is worthy of note that through this additional schemes, the FMBN would deal directly with NHF contributors to cut down processing time.

3.1.2 National Housing Fund in Nigeria

The National Housing Trust Fund (NHTF) was established by the National Housing Fund Act of 1992. It was established, as stated in section 2 of the NHF Act, to:

- Facilitate the mobilisation of long-term housing funds for the provision of affordable houses to Nigerians;
- Facilitate the constant supply of long-term credit facilities to Nigerians for the purposes of building, purchasing and improving residential houses in Nigeria;
- Provide incentives to the capital market to invest in the property market in Nigeria;
- Encourage the development of programmes that will ensure the effective financing of housing development in Nigeria;
- Provide proper policy control for the housing sector; and
- Provide long term loans to Mortgage Institutions for lending to contributors to the Fund.

The National Housing Fund (NHF) is a Federal Government scheme, to which all public servants and employees in the organised private sector within the country are expected to contribute 2.5 per cent of their monthly salary to Federal Mortgage Bank of Nigeria, managers of the fund. The scheme is a pool, where workers contribute, and from which they are expected to withdraw or benefit in due time. Employees of various corporations who are active contributors to the scheme, can access the fund through Primary Mortgage Banks (PMBs) up to a maximum of ₦15 million at the rate of 6 per cent interest, repayable over a maximum period of 30 years.

In order to ease the pool of funds and facilitate access by the workers, the law directs employers to remit the mandatory contributions to the Federal Mortgage Bank of Nigeria (FMBN). Also, commercial and merchant banks were mandated by the same statute to invest 10 per cent of their loans and advances into the FMBN at an interest rate of 1 per cent above the interest rate payable on current accounts by commercial banks to their customers. Similarly, insurance companies are expected to contribute 20 and 40 per cent of their non-life and life funds, respectively, into real estate development of which not less than 50.0 per cent shall be paid into the NHF through the FMBN at an interest rate not exceeding 4.0 per cent per annum. The law also requires the three tiers of government (Federal, State and Local) to contribute at least 2.5 per cent of their annual revenues into the NHF. The Act also provides for a 4 per cent interest on workers' contribution to the fund. Workers are eligible to borrow any time for building purposes but where this is not done, the worker contributor can withdraw his savings (including the interest) at the age of 60 or at retirement.

3.1.3 Remittance of Contributions

Employers are required by law to deduct the housing contribution from their employees' monthly wages and ensure that such deductions are remitted to the NHF via the FMBN within one month of making such deduction. Self-employed individuals are also authorised to make 2.5 per cent of their monthly salary as their housing contributions to the Fund provided that such contributions are remitted on a monthly basis.

The Central Bank of Nigeria (CBN) is authorised to collect from Nigerian licensed banks, this statutory housing contribution to NHF, at the end of every financial year and not later than a month thereafter. The CBN shall in turn ensure that within two months of making the collection from the banks, such collections are remitted to the FMBN for investment in the National Housing Fund (Section 11 NHF Act).

The FMBN is authorised to issue on insurance companies, such demand notices for such amounts that it deems as their contribution to the fund after examining their audited accounts. The failure of any insurance company to comply with these provisions is a ground for the cancellation of the business license of such an insurance company (Section 12 (3) of the NHF Act).

3.1.4 Beneficiaries of the Fund

The primary beneficiaries of the Fund are the contributors to the Fund who are eligible to take loans from the FMBN through the licensed mortgage institutions to build, purchase or renovate their houses in Nigeria. The repayment of these contributors' loans are also statutorily regulated by the Government's published Gazette specifying the mode and manner, with the terms and conditions for the repayment of any loan obtained under the NHF Act.

Section 14 of the NHF Act provides that licensed mortgage institutions are the secondary beneficiaries of the Fund as they qualify for loans from the Fund, on such terms and conditions as may be published by the Federal Government of Nigeria in its official Gazette from time to time.

3.1.5 Security of the NHF Credit Facilities

All loans obtained from mortgage institutions must be secured by a first mortgage while all loans granted by the FMBN to a mortgage institution must be secured by a charge on a block of existing mortgages under the cover of a Sales and Administration Agreement executed between FMBN and the Mortgage Institution. The later Agreement must be registered at the Land Registry along with the Deed of Assignment of the block mortgages to which the said agreement relates. The cost of stamping and registering such an Agreement shall be borne by the mortgage institution except where waivers on these costs are granted by the approving authority at the Land Registry. FMBN is also authorised in some instances to require a Mortgage Institution to execute a floating charge over its assets.

3.1.6 Cost of Credit under the NHF

The rate of interest to be charged by the FMBN on loans to PMBs shall be slightly lower than the prevailing commercial interest rates in Nigeria. Such an interest rate shall be fixed for the duration of the long-term loan with no room for adjustments to suit the variances in the money market. Mortgage Institutions are statutorily allowed a minimum spread of four percentage points above the rate charged by the FMBN while the latter is only statutorily allowed not more than one percentage point above its own borrowing rate on loans it grants to Mortgage Institutions in Nigeria.

3.1.7 Refund of Contributions

On the attainment of the age of 60 years or upon being retired from employment, any contributor to the NHF that becomes incapable of continuing to make contributions to the Fund, shall be eligible to a refund of his contributions within 3 months of his application to the Minister of Housing provided that such a contributor has not obtained a housing loan under the Fund which remains unliquidated.

3.1.8 Rendering of Accounts

The FMBN is statutorily required to render periodic accounts on the Fund to the CBN. In like manner, FMBN is also statutorily required to render annual returns to all contributors showing among other things, the total amount contributed, the accrued interests and the balance in the contributor's account as of the date of making such return. Mortgage Institutions which have obtained loans from the FMBN must also render statutory quarterly returns to the FMBN in such manner and form as the Minister of Housing may from time to time specify.

3.1.9 Offences and Penalties under the NHF

Any employer who fails to make a deduction from employees' basic salary as required by the Law, or who fails to remit the sums so deducted to the FMBN is guilty of an offence which on conviction attracts a fine of ₦50, 000 for corporate bodies and ₦20,000 for individuals or imprisonment for a term of five years or both. A self-employed person who fails to make the necessary deduction is also guilty of an offence which on conviction carries a fine of ₦5,000 or a term of imprisonment of one year or both. Any individual who prevents or obstructs the deduction or remittance of the housing contribution is also liable to the fine and or to the term of imprisonment as those attributable to a self-employed person.

The institution of criminal proceedings or the imposition of the appropriate penalty does not relieve any employer or self-employed person from the subsisting liability to pay to the FMBN the sum deducted for the purpose of the NHF. False statements, misrepresentation, production of false documents or failure to produce required documents during inspection attract fines and terms of imprisonment on conviction. The Federal High Court has the exclusive jurisdiction to try all offences under the National Housing Fund Act.

The FMBN is authorised to demand the immediate repayment of all loans with interest thereon, inclusive of a 200 per cent penalty on the interest differential between the market rate and the Fund rate from a mortgage institution which misallocates or diverts its loans. In addition to the penalties, FMBN is authorised to suspend any erring Mortgage Institution from further borrowing or a period of six months and cause such Institution to remain suspended until it complies with the above provisions.

3.1.10 Exemption from Income Tax Regime

Contributions under the NHF and refunds of any such contributions under the NHF Act are exempted from the payment of any form of income tax.

3.1.11 Terms and Conditions for Obtaining Loans from the NHF by Mortgage Institutions and Individual Contributors

A licensed Mortgage Institution must submit all its application(s) for a loan to the FMBN. Such application must enumerate the applications received for loans from individual contributors against which the loan(s) request shall be disbursed under the NHF scheme. It is mandatory that no mortgage Institution shall in any given financial year be granted a loan in an amount that is more than 50 per cent of the Mortgage Institution's shareholders' Fund.

3.1.12 Disbursement Conditions

According to the NHF Regulations, in order to safeguard the resources of the Fund, and prevent the misallocation or diversion of the mortgage loans given under the Fund, the FMBN shall only make loan disbursements to a mortgage institution on the presentation of the acceptable securities as stated in the above sub-section where a misapplication or diversion is shown or envisaged. All disbursements from the Fund shall be by cheque or by any other acceptable instrument of settlement. The FMBN is not allowed statutorily to disburse loans in cash or to charge more than 0.25 per cent of the value of a loan as legal, survey and administrative fees. But this excludes stamping, registration and other statutory fees. In addition to these, equity contributions for loans lower than ₦5 million will attract zero per cent equity contribution, while loans from ₦5 million to ₦15 million will require an equity contribution of 10 per cent.

3.2 Challenges of Mortgage Financing in Nigeria

Some problems which constrain adequate and efficient credit delivery to the housing sector in Nigeria include;

a. Poor Access to Land

Accessibility of land in terms of availability and cost remains a challenge to the overall value chain of housing industry. The cost of processing title documents is exorbitant and takes quite a long period to obtain all the necessary approvals.

b. High Cost of Construction

Developers' reliance on imported conventional building materials has led to high cost of construction thereby leading to exorbitant price of housing units. The burden of provision of infrastructure by the developers also translates to increased cost of housing delivery, because ideally infrastructure is supposed to be a public good.

c. Equity Contribution

Equity contribution is a prerequisite that qualifies an applicant to access the NHF loan. The requirements are usually high, ranging from 10 to 30 per cent of the loan. However, the low income of most employees hinders the ability of workers to access and benefit from the scheme.

d. Interest Rate on National Housing Fund

The low interest rate stipulated by NHF act on investment on NHF makes the banks and insurance companies reluctant to invest in the Fund, especially as there are more profitable investment alternatives. Interest rate on the facility should not exceed 6 per cent per annum.

e. Level of Participation in the NHF

Given the large size of the informal sector in the country, there are still workers who are yet to be registered and are therefore not making any contributions. Beneficiaries of the NHF scheme are also relatively small compared with the contributors.

f. Low of Participation by All States of the Federation

According to the FMBN, as at 2018, six states were not contributing to the NHF, this limits the amounts of fund available to the FMBN to deliver housing to prospective beneficiaries.

g. Long Processing Time

Due mainly to bureaucratic challenges and difficulties in providing the required application documents, the amount of time required for the processing of NHF loans takes up to 3 years to complete instead of 90 days ideal processing time.

h. Lack of Adequate Support from Stakeholders

Various stakeholders such as developers, PMBs and state governments do not provide adequate supports needed to achieve the objectives of housing delivery. For instance, cases abound where developers do not complete their houses in line with agreed standards and time, thereby making it difficult for off-takers to accept the houses and more difficult for packaging of the loans by the bank. Similarly, state governments that are expected to provide land and infrastructure, do not, in most cases, provide infrastructure to enable home ownership, thereby making it difficult for financing.

i. Lack of Transparency

The process of the NHF loan application is often frustrated as PMBs do not disburse funds released to them by FMBN for on lending to beneficiaries.

j. Low Capital Base

The ₦5 billion capital base of the FMBN is still a far cry off ideal, especially in view of the glaring housing deficit in the country.

4.0 EMPIRICAL ANALYSES

4.1 Methodology, Scope of the Study and Data Analyses

The study employed quantitative and qualitative data analyses. Descriptive analysis was carried out to observe the unique features and relationship among the variables. Inferential analysis that consisted of univariate and bivariate framework was also employed. The univariate analysis employed the use of frequency distribution table for all the important variables. In the bivariate analysis, beneficiaries, developers and PMBs were examined using series of cross-tabulations. Three types of questionnaires were employed to collect primary data from Beneficiaries, Developers and the PMBs. The study adopted the case study approach in two locations of the Federation; Lagos and Abuja, which are the high hubs of the NHF in Nigeria.

The study covered the period 2012 to 2017and the main areas covered in the survey modules are as follows: Demographic Characteristics; Working History; Housing Characteristics; Awareness of NHF; Reasons for loan default; NHF processing time and Information on Beneficiaries; and Developers and Primary Mortgage Banks (PMBs).

A total of One hundred and fifty (150) Beneficiaries, twenty-two (22) Developers and thirteen (13) Primary Mortgage Banks (PMBs) were studied in the two locations. The selection of respondents were done randomly from the available records obtained from the FMBN.

Three set of questionnaires were used to collect information from each of the three respondents. The completed questionnaires were processed and analysed using Statistical Package for Social Science (SPSS version 13).

The study used the systematic sampling technique—the 1–in–k systematic sampling. The approach involves randomly selecting a beneficiary or developer or primary mortgage bank from the first K group in the population, and every K^{th} group thereafter. The appropriate population size was selected using the formula: (Number of elements in population (K)/the number of sample members required (NSM)), i.e., (K/NSM).

4.2 Questionnaire Response Rate

The study distributed a total of one hundred and eighty-five (185) questionnaires to the three stakeholders-PMBs, Developers and Beneficiaries-of NHF, in two housing hubs in Nigeria, namely: Abuja and Lagos. Ninety-two (92) were administered in Abuja and ninety-three (93) in Lagos, respectively. Out of the total questionnaire administered, seventy-two (72) and seventy (70), questionnaires were retrieved, representing 78.3 and 75.3 per cent response rates, respectively (See Table 1a).

Table 1a: Housing Hubs Questionnaire Response Rate

Housing Hub	*Total questionnaire distributed*	*Questionnaire retrieved*	*Response rate (%)*
Abuja	92	72	78.3
Lagos	93	70	75.3
Total	185	142	76.8

Source: Field survey, 2017

The One hundred and eight-five (185) questionnaires were distributed to sixteen (16) PMBs; Thirty-two (32) Developers and One hundred and thirty-seven (137) Beneficiaries. The questionnaires retrieved were nine (9); Nineteen (19) and One hundred and fourteen (114) from PMBs; Developers and Beneficiaries, respectively as shown in Table 1b.

Table 1b: Questionnaire Response Rate

Category	*Total questionnaire distributed*	*Questionnaire retrieved*	*Response rate (%)*
Primary Mortgage Banks	16	9	56.3
Developers	32	19	59.4
Beneficiaries	137	114	83.2
Total	***185***	***142***	***76.8***

Source: Field survey, 2017

4.3 Analysis of Survey Findings

The perspectives of the three identified stakeholders of the NHF Scheme viz: PMBs, Developers and Beneficiaries were analysed in this section in line with the thematic areas of the study. This was done to appraise their effectiveness, in achieving the objectives of the Scheme.

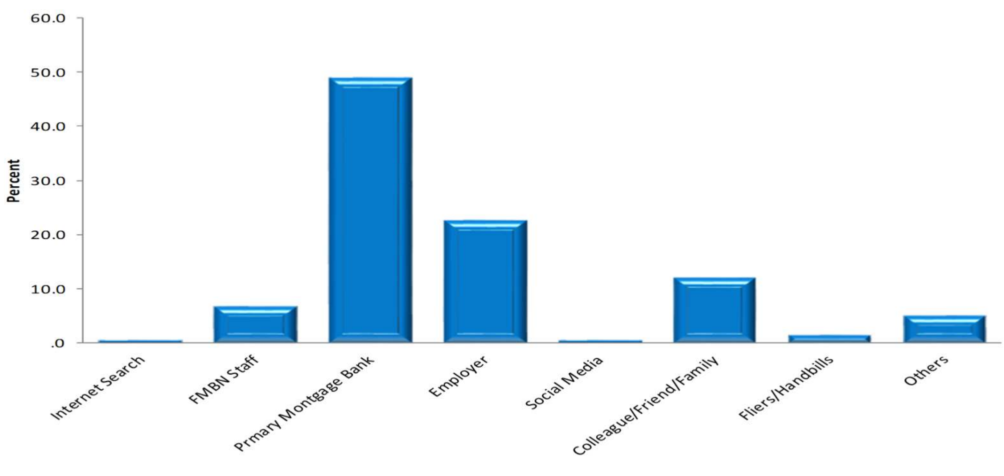
Awareness of NHF Scheme

An assessment of the level of awareness of the Scheme by Nigerians was carried out in the study. The level of awareness of the Scheme influences the extent of interest and participation by prospective beneficiaries. In line with this, awareness of the Scheme through various avenues of information dissemination such as internet search engines; staff of FMBN and PMBs;

employers; social media; colleagues, friends and families; fliers/handbills and 'others' were assessed.

Survey findings indicated that 49 per cent of the respondents were introduced to the Scheme by the PMBs while 23 per cent learnt about the Scheme through their employers. Furthermore, 12 per cent got information through colleagues/friends/family members, while 7 per cent got the information through the FMBN Staff. This indicated that PMBs remained the dominant channel for awareness creation of the Scheme. However, discussions with the FMBN indicated that renewed efforts have been put in place to increase awareness of the Scheme. For instance, the FMBN adopted the use of social media handles such as twitter; invitation of mass media to cover programmes on delivery of finished houses to beneficiaries; as well as plans to place a plaque on houses funded by NHF.

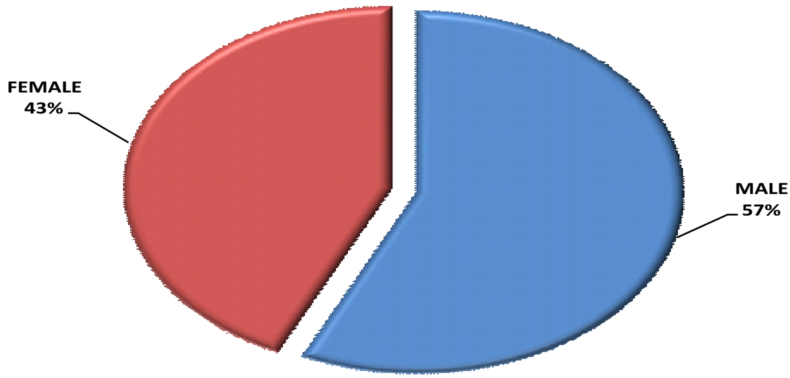
Figure 1: Awareness of the Scheme



Gender Characteristics of NHF Beneficiaries

An analysis of survey returns revealed that 57 per cent of the respondents that accessed NHF were males while the remaining 43 per cent were females. This showed a fair gender balance attributable to the urbane nature of the sample locations, non-gender discriminatory nature of the loan application process, target clients of the NHF (formal sector) and relatively high level of awareness of the Scheme in the sample locations.

Figure 2: Access to NHF by Gender

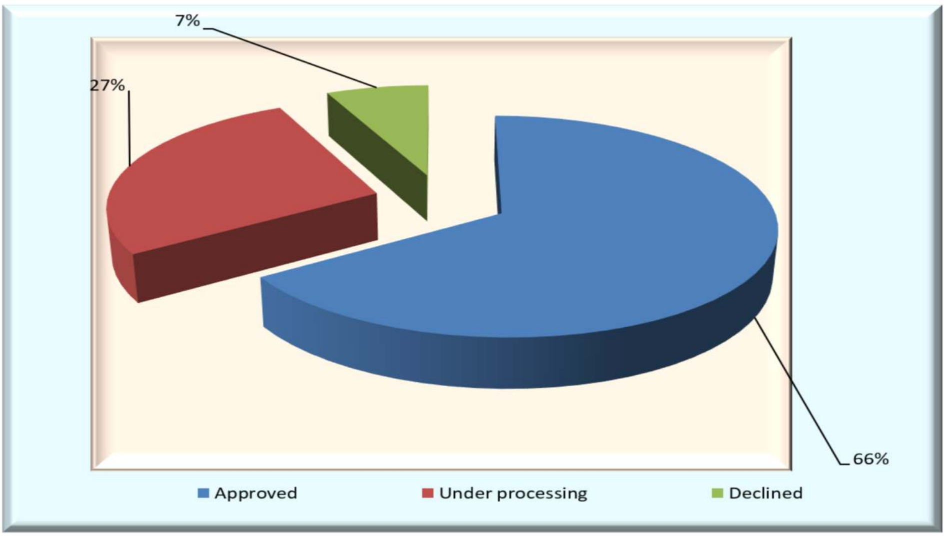


NHF Loan Approval Rate

The approval rate of NHF loans by PMBs was assessed with a view to ascertaining the extent to which prospective home owners secure finances for their mortgages from the NHF. Survey returns from the respondent PMBs indicated that out of 21,450 NHF loan applications received from 2012 to 2016, 18,070 were approved, representing 84.2 per cent of the total loan applications. The sum of ₦19.7 billion was disbursed to the beneficiaries during the period.

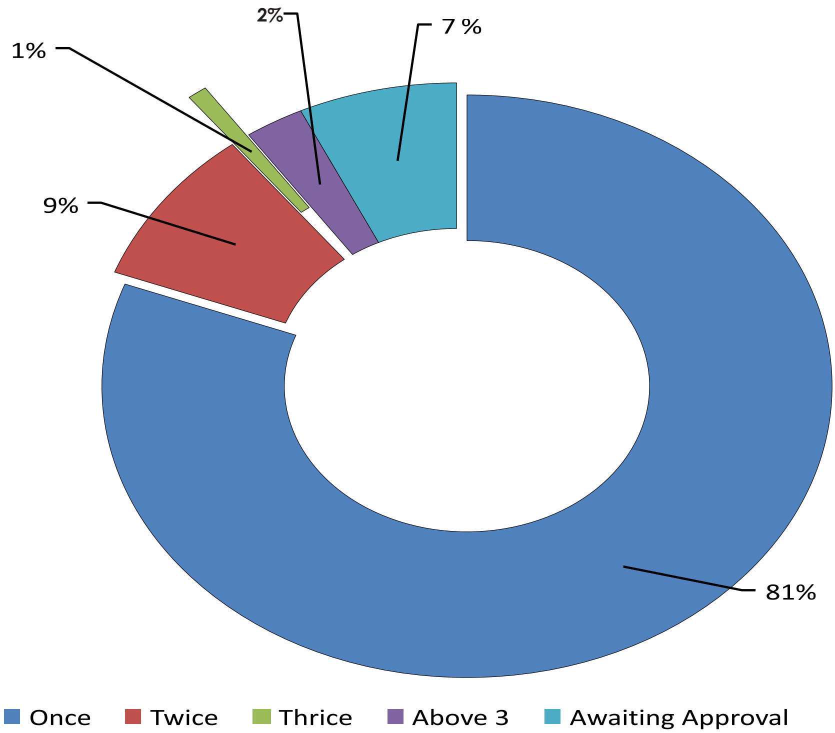
The high approval rate reported by PMBs was also corroborated by respondent beneficiaries who reported that 66 per cent obtained loan approvals while 27 per cent had their applications undergoing processing and the remaining 7 per cent were declined.

Figure 3: Beneficiary Perspective on NHF Loan Status of Application



Further analysis on frequency of application attempts by beneficiaries showed that 81 per cent of the respondents applied once and received approval, 9 per cent applied twice, 2 per cent applied more than three times and 7 per cent were awaiting approval. The inference is that once an applicant meets the minimum requirements for NHF loan, the necessary approval will be given.

Figure 4: Frequency of Loan Applications



Processing Period for NHF Loan Applications

The study also sought to find out the length of time it took for beneficiaries to access the NHF through their PMBs. This is necessary, since long processing time could act as disincentive to seek mortgage financing from the Fund. In this regard, 70 per cent of surveyed PMBs were of the opinion that it took more than 12 months, on the average to process a mortgage facility from the NHF, while 20 per cent opined that it took between 6 to 12 months, and the remaining 10 per cent said it look less than 6 months. This suggests that the long time it took to process applications could discourage the patronage of the Scheme.

Occupational Distribution of NHF Beneficiaries

Beneficiaries of NHF Loan facilities were disaggregated on the basis of occupation type. These occupations comprised civil servants, organised private sector employees and self-employed persons. Survey returns indicated that of a total of 2,967 beneficiaries, civil servants were the most dominant beneficiaries of the Scheme, as 49.4 per cent of the total beneficiaries were from this group. This was closely followed by the organised private sector with 41.3 per cent, while the self-employed group benefitted the least at 9.3 per cent.

Table 2. Occupational Distribution of NHF Beneficiaries

Occupational Distribution of NHF Beneficiaries							
Occupation Type/Year	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**	**% Share**
Civil Servants	311	362	356	244	194	1,467	49
Private Organizations	308	291	404	134	88	1,225	41
Self Employed	75	48	50	67	35	275	9
Total	**694**	**701**	**810**	**445**	**317**	**2,967**	**100**

Source: Field Survey, 2017

However, it is worrisome to note that out of the total approved applications of 18,070, only a meagre 2,967 applicants benefited from the Scheme, representing a disbursal rate of 16.4 per cent only.

Supply and Demand of Houses

An Analysis of various houses supplied by developers was carried out by the study. This was due to the need to observe the preferences of beneficiaries of the Scheme. In line with this, respondent developers supplied different types of housing units which included apartments[2] (flats); one, two and three bedroom bungalows; as well as duplexes.

Further analysis revealed that the three-bedroom bungalow house-type was the most supplied by developers during the survey period. In line with this, out of a total of 11,978 housing units supplied, the three-bedroom bungalow house-type accounted for 54 per cent of total supply. This was followed by two-bedroom, duplex and apartment (flats) house types which accounted for 32, 9 and 5 per cent, respectively. The one-bedroom house-type was the least supplied as only 1 per cent of this house type was supplied.

The high preference for the three-bedroom house type is not surprising given the fact that it is mostly demanded by young couples in early to mid-stages of their career, while the one-bedroom house type is least demanded as it is viewed as a transit apartment due to the limited space.

2. Apartments and duplexes were of various room numbers and types, but were aggregated for ease of analysis.

Table 3. Distribution of Houses Supplied by Type

Distribution of Houses Supplied by Type							
Housing Type/Year	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**	**% Share**
Apartment (Flats)			126	145	352	**623**	**5**
One Bedroom Bungalow		7	3	21	31	**62**	**1**
Two Bedroom Bungalow	200	760	344	201	2,272	**3,777**	**32**
Three Bedroom Bungalow	150	393	349	368	5,205	**6,465**	**54**
Duplex				12	1,039	**1,051**	**9**
Total	**350**	**1,160**	**822**	**747**	**8,899**	**11,978**	**100**

Source: Field Survey, 2017

In terms of demand by the beneficiaries, further analysis of survey findings indicated that unlike three-bedroom house type that was most supplied by developers, majority of the respondent beneficiaries preferred two-bedroom apartment types accounting for 42.4 per cent of total beneficiaries. This was followed by three bedroom (40.9%), apartment (10.6%), Duplex (4.5%) and one-bedroom (1.5%).

Table 4. Demand for Houses by Income and House Type

Demand for Houses by Income and House Type						
Monthly Income	**Apartments**	**1 Bedroom**	**2 Bedroom**	**3 Bedroom**	**Duplex**	**% Share**
Below 50,000	0.0	0.0	66.7	33.3	0.0	**4.5**
50,001-100,000	8.3	0.0	66.7	25.0	0.0	**18.2**
100,001-200,000	4.0	4.0	52.0	40.0	0.0	**37.9**
200,001-300,000	20.0	0.0	13.3	60.0	6.7	**22.7**
Above 300,000	18.2	0.0	27.3	36.4	18.2	**16.7**
Total	**10.6**	**1.5**	**42.4**	**40.9**	**4.5**	**100**

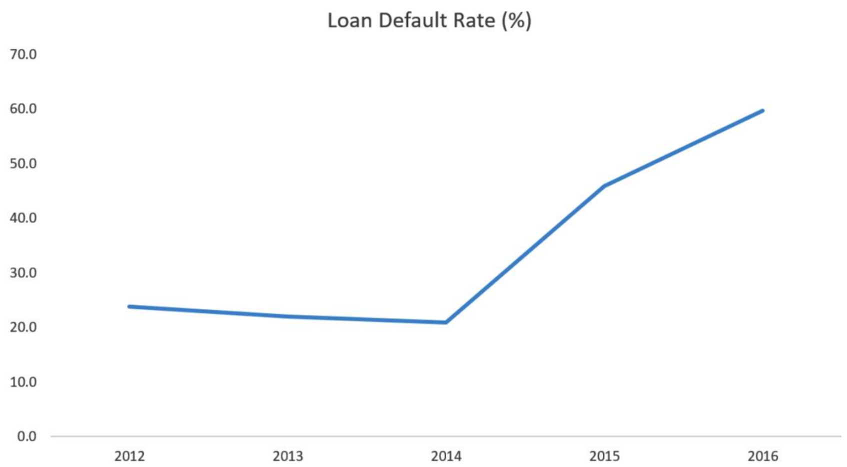
Source: Field Survey, 2017

In terms of income classification, beneficiaries with earned monthly income ranging between ₦100, 000 and ₦300, 000 benefitted most from the Scheme, while applicants with monthly income below ₦50, 000 benefitted the least. It was however, puzzling to discover that individuals within the least income group were not interested in the apartment and one bedroom house types, which were expected to be the most affordable. This income-house type mismatch could also account for the high loan default rate witnessed by PMBs.

Loan Default Rate

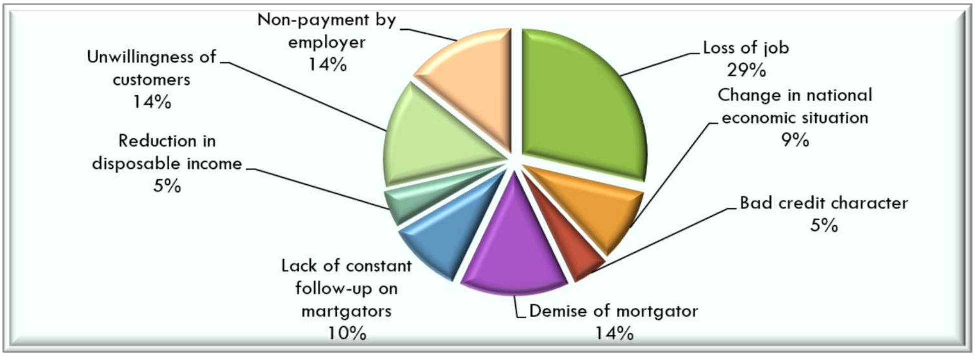
The extent of default of disbursed facilities was also assessed in the study. This is because high default rates render the Fund unsustainable in addition to threatening the stability of the financial system if left unchecked. Loan default as defined by the NHF Scheme is the inability to meet agreed loan repayment condition for a maximum period of 3 months. Survey analysis of PMB returns revealed that at the minimum of one in every five disbursed loans went into default. Despite the slight improvement of 20.9 per cent witnessed in 2014 compared with 23.8 per cent in 2012, the rate of loan default witnessed a sharp increase to 45.8 per cent in 2015 and further to 59.6 per cent in 2016.

Figure 5. Loan Default Rate



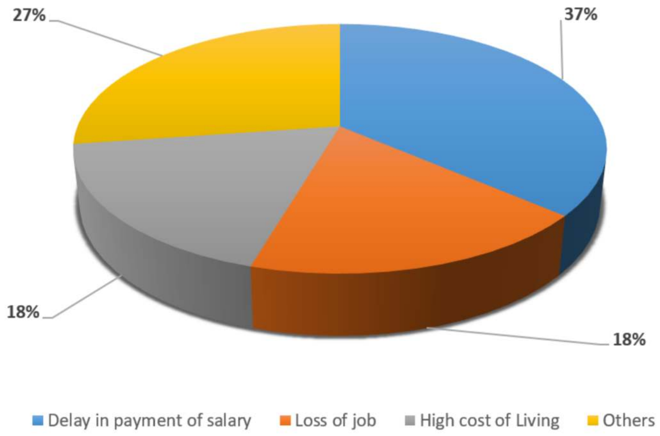
Various reasons were provided for the high default rates experienced by PMBs. From Figure 6 below, 29 per cent attributed it to job loss, 14 per cent to the demise of the mortgagor, unwillingness of the customers and non-payment by employer. Other reasons given for default were lack of constant follow-up on the mortgagor which accounted for 10 per cent. Also, change in national economic situation accounted for 9 per cent of reason for default while reduction in disposable income and bad credit character accounted for 5 per cent each.

Figure 6: Reasons for NHF Loan default



Beneficiaries of the Scheme were also asked reasons for defaulting on the loan repayment in line with contractual agreements. Survey findings revealed that most of the beneficiaries (36%) defaulted due to delay in the payment of salaries. Job loss and high cost of living accounted for 18 per cent apiece while 'other reasons' (27%) accounted for the high default rates encountered in the Scheme.

Figure 7: Beneficiary Perspective on Reasons for Loan Default

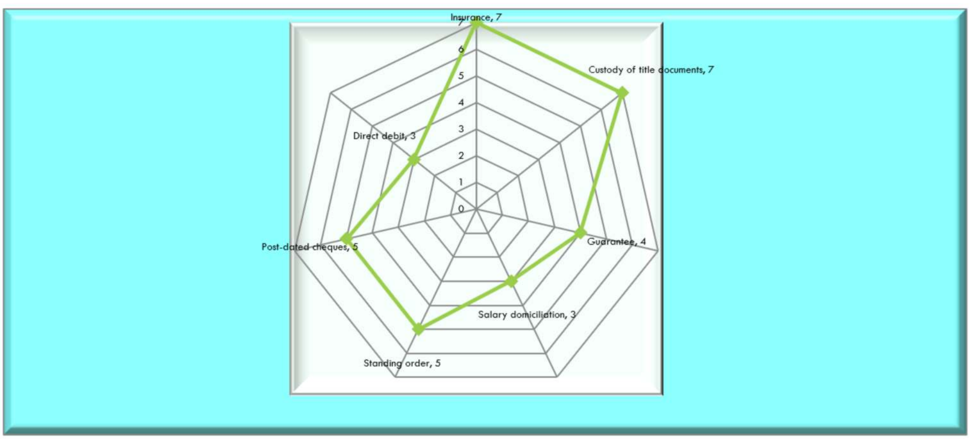


Risk Mitigation Strategies by PMBs

Various risk mitigation strategies which were adopted by PMBs to reduce the incidence of loan default were also assessed. These mitigation strategies included request for mortgage insurance, guarantee, salary domiciliation, standing order and custody of title document(s) and postdated cheques.

On a scale of 1 to 7, a cursory evaluation of the Figure 8 below revealed that Insurance and custody of title document(s) were the highest with 7 points, each. This was followed by post-dated cheques and standing order with 5 points, each. Guarantee was 4 points while direct debit and salary domiciliation accounted for 3 points each.

Figure 8: Risk Mitigation Strategies by PMBs

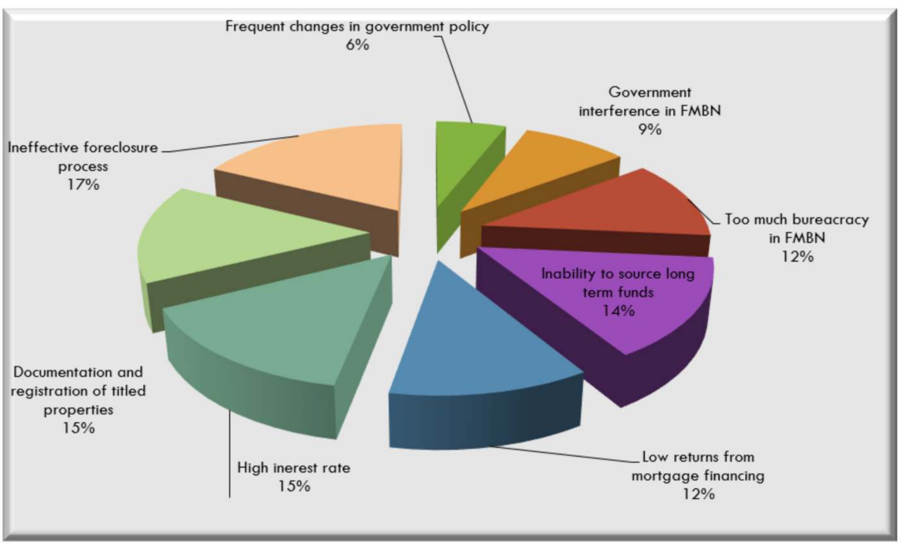


Challenges Faced by Stakeholders in the Scheme

A. Primary Mortgage Banks

The survey on the operational challenges faced by PMBs showed that ineffective foreclosure process accounted for 17 per cent, while 15 per cent each was adduced to documentation and registration of titled properties; and high interest rates, respectively. Other challenges were the inability to source long term funds (14 per cent), too much bureaucracy at FMBN and low returns from mortgage financing accounted for 12 per cent each. Government interference in FMBN and frequent change in government policy were 9 and 6 per cent, respectively.

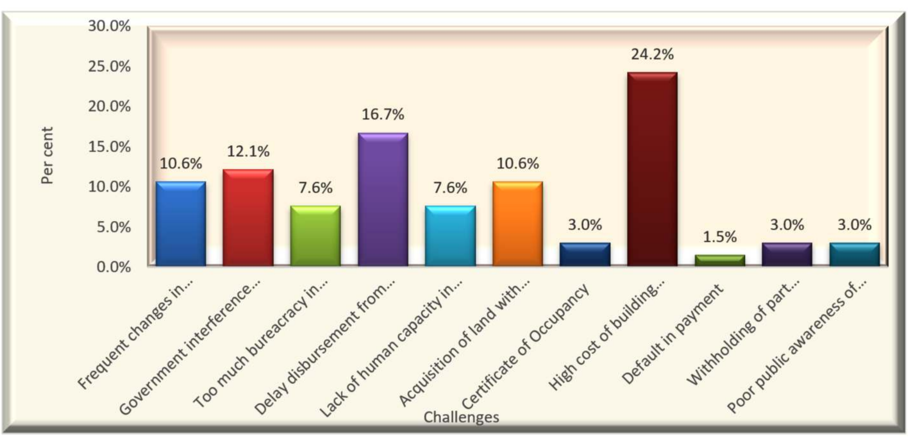
Figure 9: Operational Challenges by PMBs



B. Estate Developers

Estate developers encountered a number of challenges in accessing credit from the NHF. An analysis of the challenges faced by developers as presented in Figure 10 below showed that 24.2 per cent of developers attributed the high cost of building materials as their greatest challenge, while16.7 per cent opined delayed disbursement by PMBs and 12.1 per cent reported that too much government interference in FMBN constituted an additional challenge. Also, frequent changes in government policies and the difficulty in acquisition of land with title documents accounted for 10.6 per cent each, while too much bureaucracy at FMBN and lack of capacity in PMBs was responsible for 7.6 per cent each. Similarly, Certificate-of-Occupancy, withholding of part-payment by FMBN, as well as poor public awareness of the NHF constituted 3 per cent each while 1.5 per cent attributed the operational challenges to default in payment.

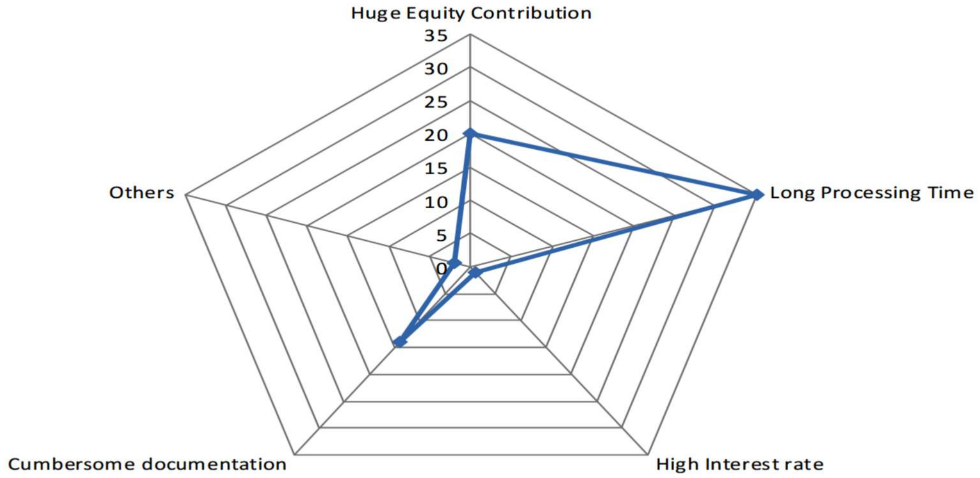
Figure 10: Operational Challenges faced by Developers



C. Beneficiaries

Challenges faced by beneficiaries were assessed in terms of the relative difficulties encountered in processing the NHF Loan. Analysis of beneficiary challenges showed that long processing time was ranked the most severe constraint by 35 points, followed by equity contributions which were deemed very huge and ranked 20 points while cumbersome documentation was the least ranked challenge at 14 points. However, in 2018, equity contributions for loans lower than ₦5 million was reviewed to zero per cent, while loans from ₦5 million to ₦15 million require an equity contribution of 10 per cent, from the previous requirements of 10, 20 and 30 per cent equity contributions for ₦5 million, ₦10 million and ₦15 million, respectively.

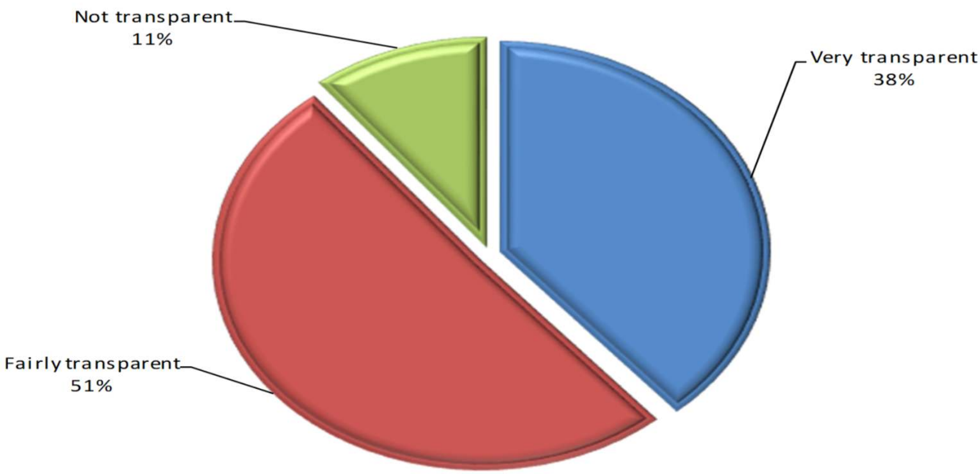
Figure 11: Challenges Encountered during Loan Application



Assessment of Transparency of the NHF

An assessment of the perceived level of transparency by beneficiaries of the NHF processes was also carried out by the study. Survey returns showed that 51 per cent of respondents rated the scheme as 'fairly transparent', 38 per cent indicated that the NHF Scheme is 'very transparent', while 11 per cent of respondents rated the process of accessing the NHF loan as not transparent. However, it was disturbing that one out of every 10 beneficiaries viewed the NHF processes as not transparent.

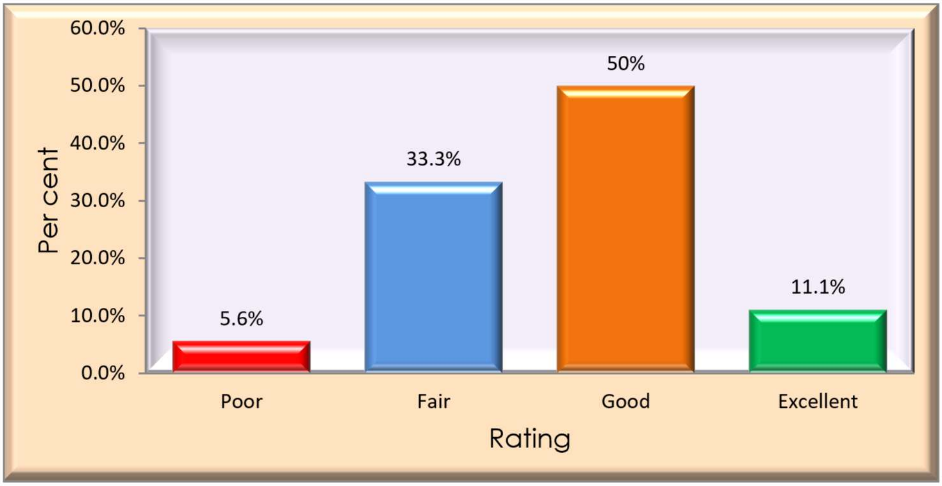
Figure 12: Assessment of Transparency of the NHF



Developer Rating of the NHF Scheme

The rating of the NHF scheme in Nigeria as presented in Figure 13 showed that 50 per cent of the Developers rated the NHF scheme as good, 11.1 per cent rated it as excellent while 33.3 and 5.6 per cent, rated the scheme as fair and poor, respectively.

Figure13: Developer Rating of NHF Scheme



5.0 SUMMARY, RECOMMENDATIONS AND CONCLUSION OF FINDINGS

5.1 Summary of Findings

1. The study found that 84.2 per cent of NHF applications received were approved. However, it is worrisome to note that out of the total approved applications of 18,070, only a meagre 2,967 applicants benefited from the Scheme, representing a disbursal rate of 16.4 per cent.
2. 57 per cent of the respondents that accessed NHF were males and the remaining 43 per cent were females showing a fair gender balance.
3. The average processing period was long, as 66.7 per cent of respondents indicated that it took above twelve months for applications to be processed and approved.
4. From inception in 1992 to 2017, the sum of ₦263.1 billion has been collected from beneficiaries while ₦84.6 billion has been disbursed to 18,936 beneficiaries as at September 2018.
5. Civil servants from the ministries and private organization were the highest beneficiaries of NHF loans.
6. High default rate increased from 23.8 per cent in 2012 to 59.6 per cent in 2016.

7. There was evidence that the Scheme provided long-term loans to mortgage institutions for onward-lending to contributors.
8. Insurance and custody of title document were the dominant risks mitigants used by the PMBs.
9. Beneficiaries with monthly income ranging between ₦100,000 and ₦300,000 benefitted most from the Scheme of which two-bedroom bungalows were the most demanded. However, three-bedroom bungalows were the most supplied by developers.
10. The process of accessing NHF is transparent though cumbersome and time consuming.
11. PMBs are the major source through which most beneficiaries got to know about the existence of the scheme.
12. Major operational challenges faced by PMBs are ineffective foreclosure process, documentation and registration of titled properties, high interest rate, and inability to source long term funds.
13. Major operational challenges faced by developers are high cost of building materials and delay in disbursement of funds by PMBs.
14. Major processing and administration challenges faced by beneficiaries are long processing time, huge equity contribution, cumbersome documentation, and non-automation of NHF process. PMBs take advantage of these challenges to

exploit applicants by offering them bridge mortgage facilities during the waiting period of their NHF loan.

15. 50 per cent of the developers rated the NHF scheme as good, 11.1 per cent rated it as excellent.
16. Loan defaults by beneficiaries were attributed to job loss, severe economic conditions, and lower disposable income among others.
17. The risk mitigation strategies by PMBs included mortgage insurance, guarantee salary domiciliation and standing order. However, direct debit and salary domiciliation were the least utilised by the PMBs. This could have contributed to the low loan recovery.

5.2 Policy Recommendations

Based on the findings of the study, we recommend the following suggestions for adoption;

i. Review of the loan processing time to make it more efficient;
ii. The effective collaboration between the CBN and the FMBN to ensure efficient supervision and timely correction of erring PMBs participating in the Scheme;
iii. The FMBN should intensify efforts to create awareness about the National Housing Fund to increase participation of prospective home owners;
iv. The NHF loan application and monitoring process needs to be automated. An online real time platform

that would enable applicants track the status of their applications should be developed to promote efficiency and transparency.

v. Developers should be encouraged to patronise locally-made building materials in order to bring down the cost of construction;

vi. The government should institutionalise a mechanism that will compel the state governments to fulfill contractual obligations regarding the Scheme;

vii. To increase the pool of funds in the NHF, government should provide additional funds, increase the capital base of the FMBN and monthly contribution by the NHF contributors;

viii. Ensure that the high default rate is mitigated by compulsory adequate insurance cover on mortgage loans and salary domiciliation; and

ix. The PMBs should ensure that loan facilities are in consonance with the financial capacity of the prospective applicants to reduce drastically loan defaults.

5.3 Conclusion

This study assessed the performance of the NHF Scheme in meeting the housing demand of workers with the aims of determining the ease of accessing the NHF by eligible Nigerians and the extent to which the scheme has provided long-term loans to mortgage institutions for onward-lending to contributors in selected locations. The study found that despite the high approval rate of 84.2 per cent of NHF applications, only 16.4 per cent benefitted from the Scheme. Also, the processing period was long as it took above twelve months for majority of the applications to be processed and approved. Similarly, it was observed that loan repayment suffered high default rates that increased from 23.8 per cent in 2012 to 59.6 per cent in 2016. In view of the findings of the study, some recommendations were made as follows: the need to review the loan processing time for efficiency; automation of the NHF processes in order for applicants/beneficiaries to track the status of their loans; additional funds should be made available to the Scheme to increase disbursement rates and Government to address the lingering infrastructural deficit to reduce the cost of housing delivery in Nigeria.

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