DISTRESS IN THE NIGERIAN FINANCIAL SECTOR:

A CASE STUDY OF HAPPY HOME SAVINGS & LOANS LTD.

BY

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DEPARTMENT OF BUSINESS ADMINISTRATION
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ZARIA.

DECLARATION

I hereby declare that this project work for the degree of Masters of Business Administration is the true project of my research work. Infact, it has not been previously presented for any degree award. All other source of information has been fully acknowledged by means of references.

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CERTIFICATION

This project work entitled "Distress in the Nigerian Financial Sector; A case study of Happy Home Savings & Loans Ltd". by Usman Abubakar meets the regulations governing the award of the Degree of Masters in Business Administration of the Ahmadu Bello University, and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This project is specially dedicated to my brother – Alh. A. D. Bukar for being a father to me always.

Also to my wife, Maryam and our two lovely children, Abubakar and Abdullahi.

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I thank the Almighty Allah, the most beneficent, the merciful. Glory be to Allah who made it possible for me to come this far in my educational pursuit and in life.

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ABSTRACT

The financial sector is one of the most dominant sector in the economic growth and development of any nation. The history of the financial sector in Nigeria dates back to 1892 with the advent of commercial banking business during the colonial period. It was not until the 1930s however, that indigenous involvement in banking business started and that period witnessed the first incidence of financial distress in Nigeria.

Distress in the financial sector in recent times, remain one of the greatest challenges facing the industry particularly since 1990. It witnessed the collapsed of banks and non-banks financial institutions. In the mortgage finance sub-sector, 97 out of the 286 licensed primary mortgage institutions (PMIs) had their licenses withdrawn in 1997 due to insolvency, while only 54 are said to be stable and sound. This situation is even worst with the community banks and finance houses.

This research has looked at the fundamental factors that led to the distress situation in the financial industry with particular reference to the mortgage finance sub-sector between 1992-1997. This includes:-

i. Poor capitalization
ii. Bad investment portfolio
iii. Political and economic instability
iv. Mobilization of short term funds and excessive interest rate payments
v. Inconsistent government policies
vi. Inadequate monitoring and control by the regulatory authorities
vii. Management/boardroom problems.

These findings are based on the empirical investigations and observation of the situation in Happy Home Savings and Loans Ltd., the analysis and evaluation of other PMIs. An evaluation of the regulatory framework and policies for PMIs operations shows an inherent inconsistency and lack of adequate capacity to monitor and regulate their activities by the supervising authorities.

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CHAPTER ONE

1.0 INTRODUCTION

This chapter looks at the general introduction of the project, the statement of problem, the objectives of project, its importance and scope, as well as the research methodology and limitations.

1.1 GENERAL INTRODUCTION

The financial sector plays a dominant role in promoting and supporting economic growth and development of any country. An efficient and effective financial sector therefore is necessary for a sustainable growth and development of a nation's economy. The financial sector plays a crucial role by mobilizing funds from the surplus spending units into the economy and lending such funds to the deficit spending units for investment purposes. This increase the level of savings and investments within the system and through the multiplier effect, increase the volume of goods and services produced in an economy.

In view of its strategic position, government pay great attention to the financial sector in order to ensure a stable, safe and sound financial system. The evolution of the financial sector in Nigeria dates back to 1892 with the advent of commercial banking business pioneered by expatriates to facilitate colonial administration, as well as trade with Britain. Indigenous participation in banking business started in the 1930s and were faced with the problems of under-capitalisation, poor and inexperienced management and competitive pressures from well established foreign banks.

Given these fundamental constraints, their collapse was eminent with the introduction of the first banking ordinance in 1952. It was the establishment of the Central Bank of Nigeria in 1959 to regulate the practice of Banking that helped in laying a sound and stable financial system in Nigeria.

In 1986, the Government deregulated the financial sector through the introduction of the Structural Adjustment Programme (SAP). This is partly because of the failure of existing financial institutions to be sufficiently responsive to the needs of the various economic units within the system. The liberalizing of the financial system witnessed a tremendous growth in financial institutions. The number of commercial and merchant banks increased from 40 in 1986 to 120 by the end of 1994. Their assets increased from N68 Billion in 1986 to N232 Billion at the end of 1992, a 40% average annual growth rate. The removal of control on interest rates led to the growth in bank deposits from N20.5 Billion in 1986 to N88 Billion by the end of 1992, a 55% annual average growth rate. This phenomenal growth and expansion in banks was witnessed in other non-banks financial institutions.

In the housing finance sub-sector, the phenomenal growth was witnessed because of the desire to provide funds to meet the growing shelter needs of individuals and corporate organizations by channeling funds from savers to borrowers. The need for the provision of adequate shelter for all has remained a global issue. In Nigeria, the policies of successive government underscores housing as an invaluable factor of economic development and social welfare. The demand for housing is basic to all human needs, as one of man's first priorities and also represent the largest single investment for most families. Housing experts generally agree that a reasonable level of housing adequacy is inevitable for nurturing and promoting a feeling of well-being among the various income groups within any society. Hence, the promulgation of the Mortgage Institutions Decree No. 53 of 1989 which seeks to encourage private participation in housing finance.

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In recent times however, the problem of distress is one of the greatest challenge facing the financial industry, particularly the mortgage finance sub-sector. This was the direct result of the rapid expansion in the financial sector occasioned by the introduction of the Structural Adjustment Programme and the lapses in regulation and supervision of the system.

Distress occurs when a Bank/Primary Mortgage Institution or any financial institution cannot meet its obligations to its customers. For a financial company to remain healthy it must have the ability to meet its depositors demand. Inability of any company to meet this obligation as at when due portends a financial problem which could manifest in the form of illiquidity and insolvency. When the problem of illiquidity persist for a very long time, it could lead to distress. Basically distress could be perceived in the following manner: -

1) Inability to meet maturing obligations
2) High incidence of bad debts IBRAHIM LIBRARY
3) Assets/liabilities mismatch resulting from poor portfolio management.
4) Illiquidity resulting in increase demand for reserves which cannot be met in the short-run.
5) Inadequate financial and human resources
6) Disproportionately high operating cost resulting from over staffing, over branching, jumbo remunerative packages, inadequate internal controls and erection of prestigious offices.
7) Boardroom and management squabbles etc.

1.2 STATEMENT OF PROBLEM & IMPORTANCE OF THE STUDY

The incidence of distress has greatly eroded confidence in the financial sector. The growing insecurity of investments and the financial losses suffered has badly affected the economy. This is in terms of savings and investments within the system and because a substantial part of the funds lost were taken out of the country.

The relevance of this study cannot be over emphasized. It is an accepted fact today that individuals, corporate organizations and government agencies have lost substantial part of their investment to distressed institutions and this has greatly affected depositor's confidence and believes in the financial sector, which should remain a veritable engine of growth and development of the national economy.

This study in the belief of the researcher provides addition to the very few academic exploration of the distress phenomenon in the financial sector and more especially in the mortgage finance sub-sector. It is envisaged therefore that the findings arising from this study will be of immense benefit to, not only operators in the system, but to the public and private sector organizations, particularly research institutes.

Furthermore, the researcher is optimistic that the findings and recommendations would open up areas for further academic investigations in the regulatory framework and operations of PMIs. The operators and students of finance would also find it useful, as findings will, it is hoped add new dimensions to the study and understanding of distress in the Mortgage Banking sub-sector.

1.3 OBJECTIVES OF THE STUDY

The objectives of this study is to provide a theoretical framework within which we could understand the growing incidence of distress, particularly in the mortgage banking sub-sector; its causes in terms of institutional, environmental and economic factors and proffer solutions aimed at curbing the distress situation within the industry.

The study also attempts to look at the regulatory framework and policies guiding the operations of PMIs and the limitations it imposed on their activities and the way forward.

1.4 SCOPE OF THE STUDY

This research study is heavily focused on the distress situation in the financial industry, with particular reference to Happy Home Savings and Loans Ltd., Kaduna and limited to the period 1992 - 1997.

1.5 RESEARCH METHODOLOGY

This study is based on existing literature, secondary data and information collected from primary data by the researcher. The primary data consist of the practical experience of the researcher and information gathered from responses to questionnaire, randomly distributed.

In addition, about 15 persons who are operators in the industry were interviewed, while the former Chief Executive Officer of the PMI studied supplies information on policy and personnel issues. Official documents from CBN and FMBN served as other sources of information. Whereas necessary tables and or graphs as well as diagrams are used to elucidate the points raised.

1.6 LIMITATIONS OF THE STUDY

This research study is limited to Happy Home Savings and Loans Ltd. Kaduna (1992 – 1997), even though a general overview of the distress situation in the industry is given because of the similarities of the factors responsible for the problem.

Time factor and on few occasions difficulty in granting information by the operators were the major constraints that affected the research work.

1.7 PRESENTATION OF THE PROJECT

This study consists of 5 chapters. Chapter One looks at the general introduction of the project itself. The objectives of the project, its importance and scope, as well as the research methodology and limitations.

Chapter Two of this study provides a critical review of relevant literature and regulatory framework and policies for the PMIs operations. It also provides an overview of the general PMIs operations in Nigeria.

Chapter Three looks at the historical background, objectives, structure and activities of Happy Home Savings and Loans Ltd.

Chapter Four provides an evaluation of the causes of distress in Happy Home Savings and Loans. Such causes as institutional factors, environmental factors, economic factors and government policies were analysed and evaluated with a view to understanding the distress situation in this institution.

Chapter Five summarized the study and made useful recommendations which is hoped will contribute in curbing the growing incidence of distress in the financial industry, particularly in the mortgage banking sub-sector.

CHAPTER TWO

2.0 LITERATURE REVIEW AND THEORETICAL FRAMEWORK

This chapter provides a critical review of relevant literature on distress and evaluates the regulatory framework and policies guiding PMIs operations. It also provides an overview of the general PMIs operations in Nigeria.

2.1 INTRODUCTION

Distress occurs when a financial institution cannot meet its obligations to its customers as at when due. Inability to meet obligations could result from a wide ranging factors, but the major factors include high incidence of bad debts, persistent political and economic instability, inadequate financial and human resources, bad management, Board/Management crisis, inadequate regulatory and supervisory capacity etc.

The phenomenon of distress in the financial sector today is traceable to the sudden increase in the number of banks following the introduction of the Structural Adjustment Programme (SAP) in 1986 and the subsequent rise in the number of non-banks financial institutions that cater for high-nominal interest rate expectations. Given the inherent lapses in regulation and supervision of the system, the collapse of some of these institutions was quite expected.

Not much literature exists on the phenomenon of distress, particularly in the mortgage finance sub-sector. Most of the literatures are the result of seminar/workshop materials, Central Bank of Nigeria (CBN), Nigerian Deposit Insurance Corporation (NDIC) and Federal Mortgage Bank of Nigeria (FMBN) reports; as well as business and economic reports by banks, Mortgage Banking Association of Nigeria (MBAN) and Nigerian Economic Society amongst others.

The incidence of distress in the Nigerian Financial sector has been so alarming that no less than 35 merchant and commercial banks out of an estimated 120 banks collapsed between 1993 – 1996. And the phenomenon is not restricted to the banking sub-sector only. Recent reports from the Federal Mortgage Bank of Nigeria (FMBN) indicate that 97 out of the 286 licensed Mortgage Institutions have had their licenses withdrawn in June, 1997 as a result of insolvency, while many of the remaining 189 institutions are at different stages of distress. The situation is even worst with the community banks and finance houses.

Distress in the Nigerian Financial Industry is not a new phenomenon, neither is it peculiar to Nigeria alone. In the pre-independence era, cases of distress were reported in the industry, particularly between 1952 and 1954. By 1954, 21 out of the 25 indigenous banks operating in the country were reported to have collapsed.

Indeed, it was the establishment of the Central Bank of Nigeria (CBN) in 1959 to regulate the practice of banking business that brought about stability in the system. The incidence of distress in the financial industry has been experienced by both developing and developed countries of the world. For example, between 1979 and 1983, 52 out of the 110 banks in Spain were involved in financial crisis leading to distress in the industry. In the United States of America (USA), the savings and loans sub-sector of the financial industry has witnessed serious crisis between 1979 and the banking sub-sector since 1982. Between 1979 and 1987, 1506 thrift banks merged, 111 were terminated and 65 liquidated. In the period between 1982 and 1987, 6 out of the 26 banks, including the largest and second largest commercial banks in Colombia were reported to be distressed. They accounted for about 23.5% of total bank assets in the country. In the United Kingdom (UK), 18 "fringe banks" were restructured or merged into other companies and 8 were liquidated from 1973 – 79. The Chilean banking crisis between 1975 – 85 led to government intervention to resuscitate 13 out of 25

domestic banks and 6 finance companies out of 18 that were distressed. In the Philippines, 182 banks were reported to have collapsed due to distress between 1981 – 87. While in West African Country of Guinea, 6 government owned banks, which accounted for 95% of total deposit of the banking system were reported to have collapsed between 1982 – 85. It is pertinent to note that many other examples of distress in the financial industry exist world-wide.

The current high incidence of distress in the Nigerian Financial sector resulted from the rapid transformation of the industry in the wake of the introduction of deregulatory policies under the Structural Adjustment Programme (SAP) of July 1986. Within a few years of the liberalization of policies, institutional development in the industry grew such that whereas there were just 40 banks in 1986, by 1994 there were 120 banks (commercial and merchant), 752 finance houses, 252 Primary Mortgage Institutions (PMIs), 879 community banks and 271 people's bank branches nationwide. With the lapses in regulation and supervision of the system, the collapse of some of the financial institutions was rather imminent.

Over the years, to curtail the incidence of distress, the regulatory authorities have introduced various measures such as assumption of control over distressed banks, enforcement of holding actions to enable the management of distressed banks to halt and correct unsafe and unsound banking practices, provision of financial assistance and appointment of interim board and management for distress banks etc.

2.2 REGULATORY FRAMEWORK AND POLICIES GUIDING THE OPERATIONS OF PMIs.

The emergence of privately owned Primary Mortgage Institutions (PMIs) followed the promulgation of the Mortgage Institutions Decree No. 53 of 1989,

which provided the legal framework for the establishment of such institutions. PMIs are expected to provide a safe and convenient means of saving for the general public and corporate and un-incorporated organizations to finance mortgages, primarily to those who wish to buy or build their own homes.

The National Housing Policy (NHP) was launched in 1991 for the purpose of facilitating the continuous flow of low-cost funds for long-term investment in housing and to create a conducive environment for a sustainable housing delivery system as well as to encourage private entrepreneurial initiative in housing development. The policy opens up a partnership between government and private sector in working towards an effective housing delivery system. As a practical step towards the implementation of the National Housing Policy (NHP), the Federal Government promulgated the National Housing Fund (NHF) Decree 3 of 1992. The Decree establishing the Fund stipulates its resources to include a mandatory monthly contribution of 2.5% to it by every Nigerian earning an annual basic income of N3,000 and above. The Decree also provides for mandatory contributions by corporate bodies, while providing for the Federal Government to make financial contribution to the fund for its operations.

A contributor may borrow up to N1.5m, increased from the maximum ceiling of N500,000 at inception. The repayment period is up to 25 years and a contributor earns 4% interest on his/her contributions, while on withdrawing from the Fund, a contributor is refunded his contribution and interest due at that time. The mortgage loan attracts an interest rate of 9% - the cheapest long-term loan facilities available in Nigeria.

The Decree also makes Federal Mortgage Bank of Nigeria (FMBN) the manager and administrator of the Fund. It is pertinent to note that, Housing finance in Nigeria has a two-tier arrangement with the Federal Mortgage Bank of Nigeria

(FMBN) as the apex mortgage institution on the one hand; and the multiplication of Primary Mortgage Institutions (PMIs) on the other hand. While FMBN is charged with the responsibility of managing and administering the National Housing Fund (NHF), among other functions, resources of the Fund are channeled through PMIs for on – lending to individual contributors to the Fund.

The statutory backing for the housing finance system under the National Housing Policy can be cited as the Mortgage Institutions Decree No. 53 of 1989, National Housing Fund Decree No. 3 of 1992, and the Federal Mortgage Bank of Nigeria Decree No. 82 of 1993.

The Mortgage Institutions Decree No 53 of 1989 places on the Board of each Primary Mortgage Institution (PMI) the responsibility for ensuring that the investments of its shareholders and depositor are adequately protected. Federal Mortgage Bank of Nigeria responsibility, as the regulator of the system is to promote that protection through defining and monitoring compliance with the criteria of prudent management which PMIs must observe and, which are set out in the Decree and other guidelines issued by the Bank. The Board of each PMI must be ready to satisfy the FMBN that the institution is complying with these criteria, including requirements for the assessment of the adequacy of the security taken for a Mortgage loan, and for accounting records and systems of business control, among others.

The legal and regulatory framework put in place for the housing finance system is designed to promote the development of the system. The regulatory framework being operated by the FMBN has three major objectives:

a) To ensure compliance with the regulations

b) To ensure that PMIs are being managed prudently; and

c) Provide information to Government on an on-going basis about the adequacy and appropriateness of regulations as financial markets change and evolve.

In pursuing these objectives, FMBN requires periodic reports and returns on financial conditions submitted by PMIs and information obtained from on-site examination (or inspections) of these institutions. The periodic reports and returns should serve as an early warning signal or system for the Bank. These returns are designed to disclose the full balance sheet and income (profit and loss) statement of the PMIs and all current loan delinquencies and defaults. The Bank is then able to determine the degree of the institutions compliance with minimum prescribed ratios and to track changes in the condition of each PMI over time by comparing current returns with previous ones.

To ensure that the information it received is accurate, on – site examinations (inspection) is being undertaken on a consistent and regular basis. The programme of examinations is such that every PMI should be examined at least once during every 18 months. The period has since been shortened to one calendar year. However, the Bank has the authority to examine any PMI more frequently, if necessary. In order to facilitate more effectiveness of the regulatory regime of the Bank, the law governing the operations of PMIs was reviewed to allow for more stringent penalties to be imposed on PMIs for non-compliance with regulations, submission of inaccurate, misleading or falsified reports and returns as well as range of actions that could be taken by the FMBN to require compliance.

2.3 AN OVERVIEW OF THE GENERAL PMIs OPERATIONS IN NIGERIA

Primary Mortgage Institutions (PMIs) have been described as institutions basically providing safe and convenient means of saving and applying such funds to make loans on mortgage, primarily to those who wish to buy or build their own homes. PMIs depends for their continued existence on obtaining money from their investors and lending the larger part of such funds to borrowers on the security of the title documents. Thus the new National Housing Policy thrust was to widen the role of the private sector as the chief means of addressing the shortages of funds and materials, with government as an enabler and facilitator. The focus of the policy is the facilitation of the accumulation of huge amounts of cheap funds mainly by the private sector through the establishment of a two-tier institutional structure, with primary mortgage institutions (PMIs) as primary lenders and FMBN as apex institution. The idea is for private enterprise to establish PMIs to mobilize household savings for their loan making operation, while FMBN is to regulate and supervise their operations as well as to perform the role of a secondary lender to them. The National Housing Fund is essentially a window for soft loans, which would complement the volume of savings freely mobilized by the PMIs to increase the resources available. The interest rate structure on the NHF operation was deliberately made low (on both the contributions and the loans to be granted) to make housing loans cheaper. Thus the voluntary and mandatory sources of funds are private sector based; and they offer the advantage of insulating the lending system from the fluctuations that had charaterised the past reliance on government patronage.

To date, 1997, a total of 286 PMIs have been licensed since the first licenses were issued in 1991. But the system has not been without its teething problems, particularly in the first two to three years of their emergence. Some of these problems were principally the following: -

i) Activities undertaken outside the scope allowed by the enabling Decree guiding operations in the industry. Some PMIs at inception patterned their operations after commercial banks (some even believed they were miniature commercial banks).

ii) Under-capitalisation leading to the use of depositors funds to finance fixed assets and pre-operational expenses which normally should have been funded with shareholders funds.

iii) Payment of month-watering interest rates on savings and acceptance of wholesale tenured deposit which were clearly unsuitable for long term lending, leading to defaults in meeting obligations to depositors and other creditors.

iv) Borrowed funds presented to and deposited with the Federal Mortgage Bank of Nigeria as shareholders contributions. Such funds have to be repaid to the lenders soon after issuance of licence. The registered shareholders thus have no stake in the new institution having to start business on a shaky ground and with no working capital.

v) Ineffective machanism for monitoring and control.

vi) Management team made up of inexperienced personnel having no requisite experience or knowledge of the specialized business of mortgage finance.

vii) Derived distress resulting from placement of funds with other financial institutions which later failed to meet their obligations at maturity.

In order to stem the observed inadequacies and to sanitise the system, the FMBN introduced a number of measures at various times in the past. These included the increase of the minimum share capital from N5million to N20million; the introduction of the Certificate of Standard; guidelines on the minimum liquidity standard expected of the PMIs, as well as the frequency and regularity of Returns to be rendered on their operations.

Flagrant and continuous disregard of fundamental prescriptions, which PMIs are licensed led to the withdrawal of the operating licenses of 97 PMIs in June, 1997 by the FMBN. These institutions were found to be irredeemably bad cases. Appendix VI shows the list of PMIs whose licences were withdrawn.

In aggregate terms, the performance of the PMIs has continued to improve over the last three years. As at December, 1996 their total assets stood at N4.339 billion, an increase of 5% on the previous year's and 43% over 1994. Their savings postfolio stood at N2.49 billion, an improvement of 31% on 1995 and 138% on 1994. However, because of the structure of the funds available to the PMIs and the economic milieu, mortgage assets created by the PMIs were only N0.43 billion.

The NHF scheme had by June, 1997 mobilised some 1.6million contributors and collected almost N4billion into the Fund. While about N155million was approved and disbursed as mortgage loan to 245 contributors out of 580 applications for N462m received since 1997.

The first PMI to accessed the Fund was Cooperative Building Society, Ibadan on Wednessday 25 June, 1997. A total sum of N1,230,912 (One Million, two hundred and thirty thousand, Nine hundred and twelve Naira) for seven beneficiaries was disbursed at that historic occassion. More applications are being considered, while 54 licensed PMIs have so far been accreditaed to access the National Housing Fund. The accreditation is a continuous process. Appendix VII shows the list of accredited PMIs to access NHF.

CHAPTER THREE

3.0 ORGANISATION, OBJECTIVES AND ACTIVITIES OF HAPPY HOME SAVINGS & LOANS LTD. (HHS & L)

This chapter looks at the historical background, objectives, ownership and management structures, products range and performance of HHS & L between the periods 1992 – 1997.

3.1 HISTORICAL BACKGROUND

Happy Home Savings and Loans Ltd. (Mortgage Bankers) is registered and licensed by the federal supervision bank, Federal Mortgage Bank of Nigeria (FMBN) under the Mortgage Institution Decree No. 53 of 1989 to carry out mortgage banking business in Nigeria. They are permitted under the law to source savings and deposits from the public to finance primary and secondary housing market activities.

The Head Office is at No. 20 Alkali Road, Kaduna. At inception in August, 1992 the company's authorized share capital was N10million and over 6.7million was fully paid up. The authorized shareholding was increase to N20million and N12million was allotted, while N7.8 million was paid up by December, 1994. The shareholding structure of the company is as shown in table 1 below and reflects hundred percent Nigerian ownership. The ownership profile includes: Architects, Engineers, retired Generals, Chief Executive of successful companies, Accountants, top flight civil servants and politicians

Table 1.

1) HRH Maj. Gen. Sani Sami (Rtd.)
2) Arc. Mohammed Dewu
3) AVM Usman Muazu (Rtd.)

4) Alh. Usman Sani Sami
5) Engr. Hamman Tukur
6) Alh. Dahiru Mohammed
7) Arc. Modibbo Siddiq
8) Engr. Abdulkadir A. Kure
9) Alh. Ibrahim Aliyu
10) Alh. Hassan Umar
11) Engr. Ibrahim Usman
12) Alh. Abubakar H. Girei
13) Alh. Bashir Tukur
14) Engr. Banabas Gemale
15) Dr. I. O. Osamwunyi

The shareholding register as at 31st October, 1993 are shown in Appendix IV. Appendix V gives details of the shareholding structure as at December, 1995.

The share inadequacy and deteriorating housing finance situation in the country underscores the need for additional efforts in the housing sector. Housing finance in present day realities, represent one area where special intervention is imperative going by the sheer enormity of the problem. The increasing trend in population growth, urbanization, and concomitant demand for housing services has further accentuated the problem especially when compared with the very limited resources and technology available for any reasonable response. The result is the demand gap for houses – i.e. in excess of supply. This is coupled with high cost of building due mainly to both cost-push and demand-pull inflation.

The initiative to address the housing problem in Nigeria was taken in 1957 by the Colonial (later Commonwealth) Development Corporation (CDC), which established the Nigerian Building Society as a fully owned financial institution.

A year later, the membership was broadened by the acquisition of shares by the Federal Government and the Government of Eastern Nigeria as follows: -

C. D. C.	60%
Federal Government	31%
Government of Eastern Nigeria	9%

This pattern of ownership continued until 1972 when the Federal Government bought over the interest of the C.D.C and thus acquired 91% of the equity of the Nigerian Building Society.

The Nigerian Building Society (NBS) modeled on similar institutions existing in the United Kingdom where building societies were formed in the period of the industrial revolution was aimed at helping their members to purchase their own homes. Self-help was considered a cardinal principle, thus any member seeking the help of the society was expected to have saved a considerable amount himself. The society receives deposits of savings from members and out of this loans are made to members.

The Federal Government lent money to the NBS and continued to be its principal supplier after the CDC withdrew. In 1975, such loans attracted very low interest of 3% for 20 years with two years moratorium on interest and capital amounted to N23.4million. However, the resources available to the Building Society was no where sufficient to make any meaningful impact to the supply of housing. The general opinion was that the attitude of the original owners and major

shareholders until 1972 emphasised on profitable return of their investment rather than on subsidized housing.

As a result, support for building was therefore concentrated in urban areas where the realizable value on the investment was essentially high unless where an applicant had impeccable credentials.

Over the years, the Federal Government has made serious efforts at national level to address this socio-economic challenges posed by housing. Emphasis was placed on the four yearly development plan as a vehicle for economic growth. Ironically, the housing sector suffered from abandonment in the first two plans. The housing situation was further worsened during the civil war period especially in the wars affected areas.

Conscious of the unprecedented growth in population, a national housing programme was inculcated in the second National Development Plan. Through an enabling decree, 59,000 dwelling units with 15,000 in Lagos and 4,000 in each of the other 11 state capitals were ear-marked for construction. To this effect, the Federal Housing Authority (FHA) was created in 1973 to co-ordinate the nationwide programme. Before now, there was the African Staff Housing Scheme whose function was taken over by the newly established Housing Board for the purpose of granting loans to Civil Servants.

The 3rd National Development Plan (1975 – 1980) contained the most remarkable intervention by government to address the deteriorating housing sector. The Federal Government got actively involved in the provision of housing rather than leaning principally on the private sector.

During this period, a total of N2.6 billion was ear-marked for the construction of 202,000 units comprising 50,000 units in Lagos and 8,000 units in each of other 19 states. But by the end of the plan period, less than 15 percent of the projection had been achieved. During this plan period, the following were created:

- Federal Ministry of Housing, Urban Development & Environment (1975)
- The Committee on Standardisation of house types and policies (1975). This marked the first major attempt by government to recognize the housing problems of the low-income group who earned less than N3,000 per annum.
- The Anti-inflation Task Force (1976) was set up to examine the inflationary trend in the economy and identify their causes.
- Rent Panels (1976) to review the structure and level of rent in the country.
- The Land Use Panel (1977) to examine the various tenure and land ownership systems in the country.
- The Nigerian Building Society was converted in 1977 to the Federal Mortgage Bank.

All these were government efforts towards ameliorating the housing problem. The year 1979 was particularly significant. It marked the beginning of negotiation of the World Bank assisted Urban Development Programme with the major objective of ensuring proper foundation for a national low-cost housing programme and to set in motion, broader urban renewal schemes. Hardly had the projects executed in this regard justified the yearnings of Nigerians.

The 4th National Development Plan (1980 – 1985) saw the Federal Government stepping up its investment in the housing sector. About N1.9 billion was budgeted for housing but by the end of the planning period, an estimated sum of N600 million has been expended on the implementation of the National Low-cost Housing Programme. In spite of this very high level of investment, the impact of

the programme on the overall quantum of the housing market was extremely negligible.

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From the foregoing, it is incontrovertible that the Federal Government has launched commendable programme at national level to address this socio-economic challenges posed by housing. By 1987, based on a chronicle of its experiences, the Federal Government realized it can no longer involved itself in the construction of houses for the generality of Nigerians. Because of the short-coming in the previous targets, the Federal Government de-emphasised its participation by removing housing from the preferred sector of the economy.

In line with the renewal government posture on housing, it promulgated the Mortgage Institutions Decree No. 53 of 1989, which seeks to encourage private participation in housing finance by providing fund much easier. In this regards, the FMBN has assumed the role of the apex housing finance institution in the country to perform only wholesale mortgage function including lending, controlling and regulating all licensed mortgage institutions.

The Federal Mortgage Bank of Nigeria (FMBN) was established by Decree No. 7 of 1977 as a housing development finance agency of the Federal Government, with an authorized share capital of N20 million. This was later increased to N150 million in 1979, and jointly subscribed by the Federal Government and the Central Bank of Nigeria (CBN) in the proportion of 60% to 40%. The bank commenced operations on July 1, 1977 having taken over the assets and liabilities of the Nigerian Building Society which became dissolved on June 30, 1977.

The FMBN is the apex housing finance institution in Nigeria. It is vested with the responsibility of promoting, supervising and coordinating housing development and finance schemes for the country. In this regard, the FMBN has been very

active in creating the environment and institutional framework conducive to mobilisation and channeling of funds to the housing sector.

The lack of credit facilities for housing is recognized increasingly as the primary constraints to the provision of a healthy housing system. This assertion bears on the fact that the availability of finance is a most crucial element in the formulation of policy to solve the housing problem. A close look at the current housing market in Nigeria reveals a very small and restricted housing finance system serving a narrow segment of the population. While the housing needs of the entire rural population and the bulk of the urban population are met by private effort, public housing represents only a small proportion of the requirement in the urban centres. In other words, only the well-to-do are able to finance their housing entirely through the private sector, while the vast majority of urban household comprising low and middle income families have no access to formal housing finance. This strengthened and encourage the establishment of HAPPY HOME SAVINGS AND LOANS LTD. to contribute to the growth of housing finance sector and indeed the national economy.

3.2 OBJECTIVES

Happy Home's objectives at inception was to provide a super market of safe savings and investment schemes through an efficient services, backed with modern technology and highly trained staff and products range that are customer-driven.

Other objectives of the company include: -

a) Identifying with the main theme of the National Housing Policy i.e. ensuring that every Nigerian, rich or poor, young or old, should be able to build his own house or have access to decent accommodation.

b) De-emphasise on the direction of existing housing finance services from the urban cities to the rural area. The aim is to develop and extend Nigeria's housing finance opportunities to the rural areas and better the lot of rural dwellers.

c) Constantly develop and market new financial products to cope with the ever changing and dynamic environment

d) Consciously pursue policies which are capable of protecting the value of shareholders investment and guarantee high returns on such investment

e) Vigorous pursue of staff welfare package that is self-motivational

At Happy Home, the strategic plan focuses on developing product range that are flexible in terms of tenor, negotiable interest rates and access. Thus it has the capacity to response to the needs of individuals and organizations.

3.3. ORGANISATIONAL STRUCTURE/MANAGEMENT & MANPOWER DEVELOPMENT.

The company has a Board of Directors comprising of six persons of integrity, experience and knowledge. The Directors of the Board of the company are as shown in table 2.

Table 2.

- HRH Maj. Gen. Sani Sami (Rtd.)
- Arc. Mohammed A. Dewu
- Arc. Modibbo Siddiq
- AVM Usman Muazu (Rtd.)
- Engr. Ibrahim Usman
- Alh. Bashir Tukur

The organizational structure of the company at inception for the Head Office and branches are shown in Appendices I and II. Appendix III gives details of manpower requirements and projections for year 1 – 5. Appendix XII gives the salary structure and employment plan at inception.

1. **General Manager/CEO**

   He has ultimate responsibility for executing policy decisions of the Board of Directors. Responsible for coordinating all the departments of the company to ensure effective execution of policies, initiating policy matters for Board's consideration. Ensuring effective and profitable running of the business of the company as a whole.

2. **Assistant General Manager (Operational)**

   Responsible for ensuring effective and profitable operation of the Company with his coordinates in the management for ensuring that policy directive of the Board through Chief Executive are carried out. Advising on policy matters relating to mortgage financing for consideration of the Board.

3. **Assistant General Manager (Finance & Admin.)**

   Responsible to the Chief Executive for executing policy decisions on Administrative matters and formulating proper accounting system, budget and keeping of essential records.

4. **Company Secretary/Manager Legal Services**

   Responsible to the Chief Executive for executing policy decisions on purely legal and Company secretarial matters. Preparation of mortgage deed, execution of same and represents the Company on legal matters. Responsible ultimately for advising the Board on company secretarial, as well as legal matters.

5. **Manager Credit**

Responsible for Mortgage Loan evaluation and monitoring. Reports directly to the AGM operations on mortgage loans applications and performance from the branches.

6. **Manager Investment**

Responsible for carrying out investment decisions in line with the position of the Board and Management. Advise on possible investments outlets and profitable instruments. Reports to the AGM operations.

7. **Manager Admin. & Personnel**

Responsible for administrative and personnel matters. This includes recruitment, and training matters. Reports to the AGM Admin./Finance.

8. **Manager Finance**

Responsible for all accounting and financial records and books of the company. Reports to the AGM Admin./Finance.

9. **Manager Corporate Planning, Research & Development**

Responsible for developing the strategic plan of the company by constantly introducing new products that suit the changing needs of individuals and corporate organizations.

10. **Manager Audit**

Responsible for ensuring internal control and monitoring within the company.

11. **Branch Manager**

Ensures day to day operations of the branch. Market the products range of the company to customers and ensures profitability in the branch.

3.3.1 STAFF RECRUITMENT AND TRAINING

Manpower requirement was dictated by the need to:

a) ensure minimum academic qualification sufficient to cope with the day to day responsibilities of a growing and diversifying financial system

b) professional education and training compatible with the envisaged responsibilities.

c) Adoptable, but varied experience

d) Character indicative of honesty and dependability: untarnished historical background and personal interest in finance as a career.

The training programme of the company was based on the fact that training represents a means of assuring the functioning of the different departments and branches and it is not a goal in itself. In other words, it is not just to increase the knowledge of certain categories of the employees, but to prepare and adapt them for their specific tasks as laid down in the job description. Thus as the company develops, the training programme must constantly be kept under review to avoid excesses and deficiencies and to take changing needs into account.

3.4 PERFORMANCE/ACTIVITIES

Happy Home Savings and Loans Ltd., was incorporated in 1992 with the objectives of providing individuals and corporate organizations and government agencies a supermarket of safe savings and investment schemes, as well as qualitative and efficient professional services in the field of mortgage banking business.

At inception, the company developed products range tailored to meet the increasing demand of customers and the challenges of a competitive industry in the most dynamic and innovative way. The company recorded modest performance in terms of deposits level, customership and products creation. For

example, gross earnings by December, 1992 (5 months after the start of operations) stood at N520,415 but by December 1993 it stood at N6,707,935 and dropped to N519,217 by 1994 because of the emerging financial position of the company – high incidence of non-performing investments. Total deposits, individuals and institutions was N1,809,402 for 1992, N11,118,655 for 1993 and N6,993,096 for 1994. Appendix VIII and IX shows the Balance Sheet as at 31st December 1993 and 1994 respectively. Appendixes X and XI shows the profit and loss account for the year ended 31st December, 1993 and 1994 respectively.

The main products range developed includes: -

i) Happy Home Regular/Group Regular Account.

This is an account you can operate without necessarily presenting yourself to the cashier. It can be used as a salary account or even operated as a joint account. It can also be operated by any group of people such as unions, societies, communities and companies.

ii) Happy Home forever account.

This account can be opened to achieve any personal target e.g. asset purchase, marriage, retirement etc. The period options are for three, five or more years. The monthly deposit is fixed and the minimum is N100

iii) Happy Home Junior Account.

This account can be opened by parents or guardian for their children or wards who are below 18 years with a minimum of N100.

iv) Happy Home Short Target Account.

A special account of 12 or 24 months tenor for various festivals such as:

- Pilgrimage, Christmas, Sallah, Easter, Vacation, House rent etc.

v) Happy Home Trust Account.

This account is for any individual who wants to invest a minimum amount of N10,000 for stated beneficiary for various reasons.

vi) Happy Home Ownership Account.

This is a contract savings account where you save for at least two years and you are entitled to triple your savings as mortgage loan.

vii) Happy Home Individual/Institutional Investment Account.

This account is for high net-worth individuals who want to make lump sum investments for various contractual periods at negotiable fixed rates or deposits from institutions such as insurance companies, banks, local governments, ministries and parastatals, pension fund etc.

viii) Happy Home Mortgage Administration Deposit Scheme.

This is a housing fund management scheme for employers of labour.

ix) Happy Home Real Estate Investment Series.

This is a special series of funds allowing small savers to pool funds together for investment in real estate.

Towards the end of 1993, the company was faced with a most difficult situation occasioned by the political crisis of that year and a stagnated economy that resulted in the collapse of many conventional banks, primary mortgage institutions and finance companies. The fundamental problems was the inability to recover matured investment with other financial institutions, particularly finance companies. Table 3 shows institutional placements as at 31/10/93.

Table 3.

INSTITUTIONAL PLACEMENTS AS AT 31/10/93

	INSTITUTION	VOLUME	INT.	TOTAL	TENOR	EFF. DATE MAT. DATE	INT. RATE
1.	FORUM BUS.	76329	23671	100000	180DYS	22/10/92-19/4/93	48% UP. F
2.	BANCTRUST	210000	90000	300000	180DYS	6/1/93-4/7/93	5% FLT UP F
3.	SECURE T & F	745000	255000	1000000	90DYS	26/3/93-23/6/93	8.5%FLT UP
4.	SECURE T & F	745000	255000	1000000	90DYS	2/4/93-30/6/93	8.5%FLT UP
5.	21st CEN. F	745000	255000	1000000	90DYS	23/4/93/-21/7/93	8.5%FLT UP
6.	VALUE-ADDED	1314000	486000	1800000	90DYS	5/5/93-3/8/93	9%FLT UP. F
7.	PICKLE F.	730000	270000	1000000	90DYS	5/5/93-3/8/93	9%FLT UP. F
8.	BRIDGE F.	730000	270000	1000000	90DYS	12/5/93-9/8/93	9%FLT UP. F
9.	SECURE T & F	1460000	540000	2000000	90DYS	13/5/93-11/8/93	9%FLT UP. F
10.	NISL	1095000	405000	1500000	90DYS	26/5/93-24/8/93	9%FLT UP. F
11.	PEMO INV	300000	44384	344384	90DYS	28/7/93-25/10/93	60% PA
		8150329	2894055	11044384			

The ridiculous and unrealistic interest rate regime led to placement of funds in weak and questionable financial organizations which resulted in the lost of over N10 million principal investment between August 1992 and December, 1993. For instance most of the institutions offered as high as 9% flat upfront per month for the placement. Table 3 above shows the interest rate regime applicable.

The political uncertainly in the country then, coupled with the fraudulent activities of the Chief Executives and Directors of many finance companies who fled the country with customers and investors funds caused distress within the industry particularly in the mortgage finance sub-sector because of the expensive nature of their funds. Table 4 below shows the major liabilities of the company based on the fixed deposits accounts as at 17/12/93.

Table 4.

MAJOR FIXED DEPOSITS AS AT 17/12/93

	SOURCE	VOLUME	INT.	TOTAL	TENOR	EFF. DATE MAT. DATE	INT. RATE
1.	KIFC Ltd.	2000000	187397	2187397	90Days	8/9/93-6/12/93	38%PA
2.	KADA MF	1000000	143014	1143014	90Days	13/9/93-11/12/93	58%PA
3.	NACB Ltd.	3000000	157808	3157808	60Days	12/11/93-10/1/94	32%PA
4.	NACB CFC	1000000	147945	1147945	90Days	25/10/93-22/1/94	60%PA
5.	NACB CFC	800000	118356	918356	90Days	21/11/93-18/2/94	60%PA
		7800000	754520	8554520			

The company was faced with a number of fundamental problems. From the bad days of 1994 and to some extent 1995 with its unprecedented and unrivalled collapse in the banking and finance sub-sector, the company miraculously survived. The situation was quite bad, indeed so bad that customer's withdrawals of as little as N200 (Two Hundred Naira Only) could not be met, not to mention the inability of staff to draw their salary value for onward of eight months. Withdrawals were then highly rationalized to a ridiculous level. It was a situation of uncertainty, hopelessness, and threats – real and imagined. It was that bad.

The company had to sale some of it assets, while diversifying the operations of the company. The main assets of the company was the plot for the proposed Happy Home Barnawa Estate, which was meant for the construction of an estate comprising Two-Bedroom semi detached, Three-Bedroom Bungalow, and Four-Bedroom Bungalow. All design drawings have been approved for work to start before the financial crisis set-in. A total sum of N3,610,000 was realized from the sale of 49 plots and 2 corner plots.

The proceeds from the plots sold was used to honour customers demands, repayment of institutional deposits, salaries and overheads, commodity trading and the granting of credit facilities to create new money.

The dwindling financial position of the company and the need to create new money to stabilize the institution and remain in business forced the company to go into areas of non-conventional operations like commodity trading, project financing and the granting of short-term credit facilities. This was the survival strategy developed by the company in order to be able to pay salaries, incur overheads, satisfy customers demand etc. and still keep their doors open.

In addition, the company looked at the options of re-capitalization by shareholders since it became quite obvious that the placements in Lagos remain largely lost. This is because most of the institutions have closed their offices and the Police Federal Intelligence and Investigation Bureau could not make any headway. The lack of enthusiasm and willingness by shareholders/directors to invest more funds frustrated the attempt towards overcoming the problems of the company. The attempt to bring in new shareholders failed because of the inherent difficulties in getting people to come and invest considering the liability position of the company.

The problems became so compounded. There is the inability to pay depositors funds, particularly institutional depositors, rent for the office, staff salaries and overheads; as well as increasing threat of court litigations. The company remains largely distress since it cannot honour its obligations to its customers, staff, government and others.

It is important to note that since late 1993 the individual deposits position with the company has been on a very steady decline. This is partly because of the

multiplier effect of the collapse of finance and conventional banks, and partly because of the prevailing economic situation in the country at that time with its attendant low financial resources by individuals and organizations. The total individual deposits liability as at December 1995 was N1.2million, but by December, 1997 it was down to N350,000. The balances in this account are mostly dormant.

The outstanding institutional depositors are:

Table5.

	NAME	PRINCIPAL AMOUNT
1.	NACB Ltd.	3,000,000.00
2.	NACB CFC Ltd.	1,800,000.00
3.	KIFC Ltd.	2,000,000.00
		6,800,000.00

NACB Ltd. got judgement against the company in November, 1995. The Court granted them judgement in the sum of N3,292,438.33. They are yet to enforce that judgement as at December, 1997.

NACB CFC Ltd. has liquidated, while Kaduna Industrial and Finance Co. Ltd. (KIFC) is still mounting pressure to get back its investment. In line with the realities of low finance and unproductive activities, Happy Home Savings and Loans Ltd. has since rationalized its staff position, through compulsory leave, suspension and resignation. The staff strength was reduced to 6 by May, 1996. Today, the staff position is three (3) made up of a Manager, who acts as the Acting General Manager and two security guards.

CHAPTER FOUR

4.0 DISTRESS IN HAPPY HOME SAVINGS & LOANS LTD (HHS&L)

This chapter provides an evaluation of the causes of distress in Happy Home Savings and Loans Ltd. Such causes as institutional factors, environmental factors, economic factors and government policies were analysed and evaluated with a view to understanding the distress situation in this institution.

4.1 CAUSES OF DISTRESS

The total number of licensed Primary Mortgage Institutions (PMIs) as at December, 1995 was 283, of which only 147 could be regarded as being in operation. In pursuit of its supervisory role, the Federal Mortgage Bank of Nigeria (FMBN) monitored the activities and examined the records of most of the PMIs and observed the following common weaknesses: -

- Poor capitalization
- Non-rendition of returns within the stipulated period
- Wrong classification of accounts
- Non-compliance with operational guidelines on assets ratio, annual accounts preparation and publication, submission of staff exit forms, notification of changes on board composition and management team.
- Non-existent or weak internal control system
- Bad investment portfolios
- Branch expansion, office relocation and office closure without obtaining prior approval.
- Concentration on mobilization of short-term funds as against grassroots savings.
- Maintenance of inadequate statutory cash reserve inspite of repeated demands
- Non-adherence to interest rates guideline.

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- Flagrant disregard for enabling laws e.g. engaging in direct construction of houses rather than granting mortgage loans, operation of current accounts with cheque books issued to customers and granting of overdraft facilities on savings accounts, among others.
- Inability of PMIs to meet obligations to customers as and when due which has led to series of litigations against the PMIs with FMBN joined as co-respondents.

These fundamental weaknesses as observed by the FMBN led to the distress situation in most PMIs. In the case of Happy Home Savings & Loans Ltd., the distress situation were the direct result of some of these weaknesses and much more. The causes of distress in the institution are discussed under the following factors:

- Institutional factors
- Economic factors
- Government policies and
- Environmental factors

4.2 INSTITUTIONAL FACTORS

A number of institutional factors contributed significantly to the distress situation in Happy Home Savings and Loans Ltd. This includes: -

1) **Poor Capitalization**

The greatest weakness of the company is the inability of shareholders to re-capitalised, faced with an ever-changing environment and increased competitiveness within the industry.

It has been discovered that PMIs of any reasonable size would need an initial capital of far more than the mandatory N5 million required by the

supervising authority to meet its set-up costs and have a reasonable funds as working capital to commence some level of mortgage business. At the time the minimum paid up capital was fixed for N5million, it was discovered that some of the promoters borrowed funds from the market and present same to the FMBN as shareholders contributions for participation in the formation of the PMI. This is in total disregard to the consequences of borrowing such funds at very high costs. The institution thus started from a weak position and had to use depositor's funds to finance its operations.

At inception, the authorized share capital was N10million, but only about N6.7 was paid up as at 31st October, 1993. Attempts to remedy the capital inadequacy by raising the share capital to N20million in 1994 was met by a very marginal increase in the paid up share capital to N7.8million even at the threat of the revocation of the operating licence of the company. This was at the height of the distress situation in the industry and the widespread incidence of non-performing investments, which had eroded the capital base of the company. The paid-up share capital and owner's resources had not only been completely eroded by bad and doubtful investments and operating losses, but also the depositors funds had been eaten to the extent of the capital deficiency.

The FMBN issued a directive for PMIs to increase their share capital to N20million. It is expected that this directive would have been complied with by all PMIs not later than 31st December, 1994. The Bank was determined to ensure that the new capital requirement was in fact contributed by registered shareholders of the institution and that the contributions or fresh injection of funds are made in such form and mode that could be certified as having improved the liquidity position or