AN EVALUATION OF LENDING POLICY OF FEDERAL MORTGAGE BANK OF NIGERIA

BY

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DECLARATION

This dissertation entitled "An Evaluation of Lending Policy of Federal Mortgage Bank of Nigeria" is my original work and has never been submitted anywhere before for the award of any degree.

All sources of information referred to are duly acknowledged.

YUSUF ALHAJI IBRAHIM
1999.

CERTIFICATION

This is to certify that this dissertation entitled "An Evaluation of Lending Policy of Federal Mortgage Bank of Nigeria" by Yusuf Alhaji Ibrahim have been approved by the Department of Accounting, Ahmadu Bello University, Zaria having met the requirement for the award of M. Sc. Degree in Accounting and Finance.

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DEDICATION

Dedicated to the memory of my late parents; Alhaji Muhammadu Ibrahim Banufe and Hajiya Fatimatu Binta Muhammadu Banufe, may their soul rest in eternal peace.

ACKNOWLEDGEMENT

In the name of Allah, the most gracious, the most merciful. I wish to express my sincerest gratitude to Allah Subhanahu Tabaraka Watahala, for sparing my life and seeing me through to accomplish my programme successfully.

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YUSUF ALHAJI IBRAHIM

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ABSTRACT

Lending Policy of Federal Mortgage Bank of Nigeria (FMBN) is one of the major areas of interest in mortgage financing and which most people and institutions are interested in. The reason being that the formation of the housing finance system extend beyond the mere provision of loans, its function have micro-economic implications. Since finance is catalytic, its potential effectiveness within the context of a housing sector policy is conditioned by certain variables such as:-

a. The priority of housing within the overall economic system;
b. The availability of funds at the appropriate terms
c. Institutional organization for the mobilization and allocation of finance for housing.
d. Income distribution profile of the population
e. Price of housing services and regulatory standards for planning and development.

The policies evolved by the Federal Mortgage Bank of Nigeria is the basis of this research. In order to arrive at conclusion from this presentation financial data which relate to the loan portfolio of the bank were analyzed. The data include : the amount of applications made to FMBN since its inception in 1977, the amount of loans approved and the amount of disbursement made to the potential applicants. Using coefficient of determination and simple percentages as instruments of analysis, the results shows that:

1. The housing finance system in Nigeria is characterized by a general shortage of long term funds.
2. Government patronage of the housing finance system is needed and is indispensable for providing the housing finance services affordable to the majority.

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3. Sector policy must have to be in reality of available resources. Population growth and urbanization are crucial determinants of housing demand pressure.

4. The sector policy should aim at meeting the fewer needs of many.

5. Complimentary funding from private sector sources would have to be induced in the medium to long-term to develop new financing instruments. The result of this study shows governments interest in this matter with the introduction of various policies on housing.

CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND OF THE STUDY

A critical component of the basic need approach to economic development is shelter after food and clothing. Housing however transcends simple shelter, it includes utilities and community services like electricity, water supply, good access roads, sewage and refuse disposal facilities and access to employment. Housing is perhaps the most important factor that determines urban forms and constitutes the single most serious problem facing large cities in Nigeria today. Housing is important to the development of the society in both economic and welfare terms. According to the World Bank (1985), it has substantial benefits, sanitation facilities and access to health and educational services.

In the1950s and 1960s the need to finance housing for Nigerians remained so small mainly because of law urbanization level. The buoyancy of the Nigeria economy in the 70's and the uneven spatial distribution of industrial development accelerated urbanization rate in Nigeria. Better medical facilities and rural – urban migration enlarged our cities beyond forecast. (Agboola, T., 1995), showed that uncontrolled and unplanned urbanization resulted in housing shortages in quantitative and qualitative forms. Thus, there now exists a yawning gap between the demand and supply of decent accommodation. The consequences of excess demands are high rent and the growth of an informal rationing system, which discriminates more and more against the poor. "Demand for housing far exceeds supply to the extent that over half of the urban population in Nigeria in slums" (Gana, J., 1985).

Indeed the importance of shelter is stressed by the Federal Government in page 307 of the Third National Development Plan, which states inter alia:

Shelter represents one of the most basic human needs and has no doubts a profound impact on health, welfare and productivity of the individual.

Recognizing that housing conditions for a growing number of people were becoming increasingly unacceptable, and that national and international action was necessary to stem the trend, the United Nations sponsored a conference in Vancouver, Canada in 1976 tagged "UN HABITAT". The conclusion from that conference represents today a general framework for international collaborative efforts in housing. Indeed, the celebration of the International Year of Shelter (IYSH) in 1987 had its origin in that conference which Nigeria was a participant (Onabule, G. A., 1988). In 1988, the United Nations again gave its global recognition when the Resolution No. 11/12 was passed on 12th April, 1988 by which the year 2000 was set as a target year for the accomplishment of housing for all.

Mortgage financing (lending) is a silent and misunderstood area in Nigeria. It is rather not a very popular area of concern in this country. But this could be attributed to the ignorance of the economic importance of housing or rather lack of awareness of the viability of financing or investment in housing or both; or even general apathy to the mortgage financing.

Obviously, this and other related issues prompted the Federal Government in 1989 to promulgate a decree called Decree No. 59 of 1989. This decree statutorily provides for the establishment of Primary Mortgage Institution in Nigeria for which all states housing corporations will assist and perform almost the same function with the "apex" Mortgage Institution in the country i.e. The Federal Mortgage Bank of Nigeria Limited (FMBN).

In Nigeria, formal mortgage market was introduced with the establishment of the Nigerian Building Society (NBS) in 1956 with a share capital of ₦2.25 million as a joint venture between the Colonial Development Corporation, the Nigerian Government and the former Eastern Region. The Government dissatisfied with the insignificant contribution of the NBS established the (FMBN) by Decree 7 of 1977 with an initial capital of ₦20 million and by 1980 expanded to ₦150 million. It assumed the assets and liabilities of the NBS.

Although FMBN was defined as an apex institution, the legal framework was not sufficient to effect its apex role - nor provided for the process of establishing a primary mortgage bank. Since the creation of four regions until 1983, state governments established many housing corporations that were more of construction companies than finance agencies. Thus, they cannot be described as mortgage banking institutions. However, some states are now restructuring and licensing theirs to play the role of mortgage banking.

With the restructuring of the mortgage market by the new national housing policy and the mortgage institutions Decree No. 53 of 1989, the market is now divided into two-tier. FMBN as the apex (licensing and supervisory) mortgage institutions and state building societies as the primary mortgage institutions.

functions - and implementing tool of the Federal Government policy on Housing by providing housing finance to Nigerians.

(vii) Mobile deposits and issues securities.

(viii) Invest in companies engaged in the manufacture of building materials.

(ix) Furnish technical assistance and other services to sectorial institutions.

(x) Provide guarantees for sectorial borrowing.

(xi) Carrying out research is aimed at improving housing patterns as well as on mortgage financial activities and the building construction industry in the country and, finally;

(xii) Collaborate with reputable Insurance companies to organize and operate a mortgage protection.

However; in addition to these duties the Bank has been compelled to take added responsibility in pursuance of the Federal Government Housing Programmes such as: The World Bank - Assisted Urban Development Programmes, The Federal Government Low Cost Housing Programme, The Federal Government Staff Housing Loan Scheme and the Federal Government National Housing Scheme.

From the above definition and functions of the Bank therefore, one can easily see that a Mortgage Bank is expected to provide greater access to Housing finance to individuals, institutions and Corporations or corporate bodies at a relatively cheaper costs than those provided by the commercial or merchant banks.

1.2 OBJECTIVES OF STUDY

The major objectives of this study are:

(1) To find out costs and financial implications of investment in Housing.

(2) To find out the lending techniques of this highly capital intensive investment.

(3) To identify the practical adoption of mortgage lending techniques and policies of the Federal Mortgage Bank of Nigeria and its attendant result.

(4) To analyse these policies and how it affects both mortgage financing and mortgage lending.

(5) To in addition also find out the significance of these lending policies as it affects other sectors.

(6) Furthermore, the work will be most valuable and beneficial to the state housing corporations and institutional mortgage investors in the country.

The subject of Home Financing is, perhaps, the most important factor in the ultimate success of any type of housing delivery. For no matter how simple or sophisticated a project may be and whether it is a private individual dwelling or a vast estate development programme, without a solid financing arrangement it will either remain on the drawing board or as a monumental graveyard of uncompleted project.

Population growth and urbanisation have become crucial determinants of housing demand-pressure; and because each is an irreversible phenomenon, the growing demand for housing is not likely to abate. Unless the growth of resources can match the demand growth, policy articulation must be predicated on appropriate standards in the reality of available resources.

Thus, finance is not merely a part of the housing problem; it represents a convergence of many wide-ranging and complex issues within the socio-economic system. In this regard, evaluating the lending policy of the Federal Mortgage Bank of Nigeria (FMBN) must seek to:

(a) Find how best resources could be mobilized into the housing market vis-à-vis FMBN lending policy.

(b) Allocate the supply of funds among the growing demands.

(c) Extend financial services to all segments of the population.

(d) Provide incentives for increasing the volume of savings within the economy.

(e) Improve the financial and economic soundness of housing projects, and

(f) To control the effects of housing sector investments on the state and national economy.

Above all; it has been the practice for the Federal Mortgage Bank of Nigeria to rely greatly on the Federal Government grants for its funds to be used in disbursing Mortgage loans. Thus the idea of mobilising savings to augment these Federal Government grants which has been embodied in the decree establishing the Federal Mortgage Bank of Nigeria. But with the economic recessions that set-in in the country; the fluctuating and uncertain nature of these federal government grants, it became inevitable and obvious for the Bank to do all it can within its ability to gather additional funds to satisfy its numerous mortgage loan seeking customers. Thus the objectives of this study.

These objectives rest on the understanding that the evaluation of the lending policy of the FMBN revolves in its leading role as the apex mortgage institution and its powers to regulate other primary mortgage institutions.

1.3 STATEMENT OF THE PROBLEM

The housing finance institutions are operationally required to mobilize savings and financial assets for housing. However, their savings mobilization activities are in direct competition with the commercial banks, which are noted for their numerical strength, their extensive branch network and wider operational scope. In consequence, their ability to compete with the commercial banks has been seriously constrained.

It is also interesting to note that the Federal Mortgage Bank of Nigeria was deliberately established to provide an apex institutional role in the housing finance system; its position within the system is somehow analogous to that of a Central Bank within the commercial banking system. With its apex functions which include the funding, control and monitoring of the activities of primary lending agencies as well as the regulation of sectorial operations within the policy objectives of Government. The effectiveness of this role requires the existence of an array of primary agencies (like building societies) through which housing finance activities might be better articulated. However, the initial absence of such institutional agencies compelled FMBN to fill the vacuum at the local level and now that they are created has led to some institutional role definition problems.

Furthermore it is also interesting to note that compared to an average annual demand of over ₦200 million for loans made on FMBN, the average resources available to the bank have not been more than one-third of this (i.e. ₦40 to ₦50 million) over the past 10 years. It has been conservatively estimated that the FMBN would require a minimum of ₦1,000 million as capital base (as against the present equity of ₦150 million) to provide a cushion from which the annual repayment could meet the average level of loan demands.

Given the resource constraints and the high cost of housing per capital in relation to the affordability of the average households and the prospects for increases in the cost of funding, it may be reasonably inferred that the existing system may not meet the major concern of the housing sector.

1.4 SCOPE OF THE STUDY

This work covers an assessment of FMBN activities right from its inception in 1977, including its various policies – particularly lending policies from 1977 to 1994.

Hence this work covers various or rather different policies adopted by the Area Offices.

The work, therefore, entails a comprehensive coverage of mortgage loan activities of the FMBN throughout the country.

1.5 SIGNIFICANCE OF THE STUDY

The function of the housing finance system extend beyond the mere provision of loans, its functions have macro-economic implications. But even if finance is catalytic, its potential effectiveness within the context of a housing sector policy is conditioned by certain variables such as:

(i) The priority of housing within the overall economic system;

(ii) Availability of funds at appropriate terms;

(iii) Institutional organization for the mobilization and allocation of finance for housing;

(iv) Income distribution profile of the population;

(v) Price of housing services and regulatory standards for planning and development.

Having these at the back of our minds, this study is significant for some reasons:

(a) It highlights the impact of the FMBN lending policy and its contribution to the national finance.

(b) The model adopted for analysis is such that permits prediction of lending trends. This therefore is of help to investment analysts and government who might want to understand the impact that investment in the mortgage will have on the nation's economy. It has been observed that mortgage finance institution are themselves very important because their size, relative to the population, and overall investment, directly influence the magnitude of business which in turn determines a country's economic performance. Thus, this study is intended to:

(a) Contribute to the existing literature of mortgage finance in Nigeria.

(b) Educate foreign investors who may need information about FMBN lending policy. Investors are always concerned with the evaluation of probable returns in a given circumstance so as to determine where funds could be profitably invested and also the availability of such funds.

CHAPTER TWO: REVIEW OF RELATED LITERATURE

2.1 INTRODUCTION

This chapter provides a review of the theoretical framework of mortgage lending or mortgage finance policy measures vis-a-vis the Federal Mortgage policies in providing accommodation for the teeming population in Nigeria.

Unarguably, the accelerating rate of increase in population growth has come about so unobtrusively that most persons even though dimly aware of its existence are unaware of its implications especially with regard to the provision of shelter, affordable housing for low and medium income majority of the households living in urban areas.

It is this excessive population growth burdened by a staggering annual growth of 3 percent, a population growth incompatible with environmental equilibrium that has culminated to the review by authorities that will be discussed of success recorded by the apex housing institution in its lending policy.

To this end, this chapter is concerned with a critical review of those theoretical issues which rest on the interaction between the lending policies of the Federal Mortgage Bank of Nigeria and the provision of adequate and affordable houses for the teeming populace.

2.2 HISTORICAL BACKGROUND OF MORTGAGE BANKING

The word mortgage (according to Gilbert in 1968) originally came from the Latin word meaning, "To Die" by the way of the French word mort, mean "Dead". Added to the mort is the French gage meaning "Security or Pledge". Thus a mortgage has been defined as "A pledge of property as security for the repayment of a loan or the performance of a duty; the pledge ends when the debt or duty is discharged.

As was briefly stated earlier, a mortgage is the creation of an interest in property as security for the payment of a debt or the fulfilment of an obligation property, is divided into real property and personal property. By implication, our brief definition of the mortgage suggests that real property and personal property may be mortgaged, and so they can. Both types of mortgages are made by an agreement or contract. Thus, an agreement which creates an interest in personal property as security for the payment of a debt or the fulfilment of an obligation might be said to be a chattel (personal property) mortgage, and an agreement that creates an interest in real property for the payment of a debt or the fulfilment of an obligation might be said to be a real property mortgage. Of course, it is the latter in which we are primarily interested.

2.2.1 Some Common Terms:

Mortgage: - This is the lender

Mortgagor: - this the borrower

Intent of the Mortgagor: - This states whether the mortgage is under lien - Theory or Title-Theory jurisdiction

Mortgage Identity: - This shows the mortgage complete corporate title and further specifies that the mortgage is an entity authorised to do business under the laws of the State in which it is incorporated.

Property Description: - This clause states that the Mortgagor pledges not only land, but also building improvement, fixtures and appurtenances that are or will be created on the land or added to structures on the land.

To Secure Clause: - This further states that the purpose of pledging a piece of real estate, with all improvements is to secure a note. This note specifies that debt amount and other facts.

Mortgagor Covenants: - This enumerates the respective responsibilities of mortgage and mortgagee.

Declaration Clause: - This provides that the entire debt becomes immediately due and payable if the mortgagor fails to keep any covenants of the mortgage.

Lender Rights and Responsibilities: - This specifies the lender rights and responsibilities - for example, the right to transfer its interest in the property to a third party.

Execution: - The mortgage must be signed by the mortgagor, dated and in most cases acknowledge.

2.2.2 Essentials of the Mortgage

A mortgage is a contract. Therefore, the instrument creating the mortgage must embrace the elements of a contract, namely:

(1) Competent parties

(2) Offer and acceptance,

(3) Consideration,

(4) Legality of object, and

(5) Because it is real property and subject to the Statute of Frauds, it must be in writing and signed.

2.2.3 Theories of Mortgage

There are two principal theories of mortgages used in the United States; namely, the title theory and the Lien theory. There are still seventeen states that adhere to the title theory of real property mortgages; the others have adopted the lien theory.

The Title Theory: The basic concept of the title theory (as stated by Gilbert 1968) is that upon making the mortgage, the mortgagor passes title to the property, the subject of the mortgage, to the mortgagee, subject to a condition subsequent. This condition subsequent is the payment of the debt. Upon fulfilment of the condition, title to the property divests (reverts to) to the mortgagor.

For example, A (the mortgagor) mortgages real property to B (the mortgagee) in a title state. Under the terms of the instrument, title passes to B. However, the instrument will state that if A complies with the condition (makes payment), then the instrument will be void.

During the period of the mortgage, by virtue of a provision in the mortgage, A is generally entitled to remain in possession of the property even though he passed title to his mortgagee.

The Lien Theory: The majority of the states (Hester 1975) use the lien theory of mortgages. Under this theory, title remains with the mortgagor, and the mortgage that is placed on the property is a charge on the title. The mortgage instrument says nothing about title, but states: "The mortgagor does hereby mortgage to . . ." After the recording of the instrument, it becomes a lien on the property described in the mortgage. The rule regarding the priority of mortgages whether in title or lien states is substantially the same rule as that regarding the priority of deeds: the instrument recorded first, in the absence of fraud, is the operative one. For example, A mortgages his property to B on October 15 with the instrument bearing that date. On the following day A mortgages the same property to C. C records his mortgage before B. In the absence of fraud, C has a valid enforceable mortgage. To avoid such circumstances, mortgages should be recorded immediately.

It is from this idea of having the first lien against the property that the term "first mortgage" was derived. The term "first mortgage" simply means that the party holding such instrument has recorded his mortgage first in point of time and thus has priority over any subsequently recorded mortgages. Second mortgage, third mortgage, and so on (stated by Dobson 1976), indicates the order of their recording, and by the same token, the priority in case of foreclosure for the private creditors. It should be remembered that in some states, notably California, tax liens, judgement liens, and mechanic's liens could have priority over the first mortgage.

2.2.4 Types of Mortgages

There are various types of mortgages (Brady 1967), but for the sake of this study, a few numbers shall be discussed.

(1) The Regular Mortgage:

This is the instrument commonly used to pledge property in most places. It can be tailored to suit both individual lender and borrower and the need as well to comply with state laws governing mortgages. Mortgages here varies in the conditions set forth and in the details of compliance with these conditions by mentioning the debt which the mortgagor is obliged to repay and the conveyance of land which secures the debts.

(2) The Deed of Trust:

This is also called a Trust indenture. It differs from the regular mortgage through its introduction of a third party. The trust deed conveys title of the real estate to a third person trustee. The trustee holds the Trust deed until the mortgage complies with the conditions of the trust deed, at which time he transfers the property to the mortgagor. A trust deed has a distinct advantages over a regular mortgage in the event of foreclosure. In some cases, trust deeds carry a power-of -state clause which empowers the trustee to sell the property in order to liquidate the debt without having to go through court foreclosure procedure.

(3) The Insured Mortgage

The primary feature of this mortgage (Mayo, 1986) states that as far as the lender is concerned is that the loan is insured. A loss as a result of failure of the mortgagor to meet his payments will be met by the Insurance Company or Corporation. This insurance feature enables lending institutions to lend a higher percent of the appraised value than they would under ordinary circumstances.

(4) The Guaranteed Mortgage

This type of mortgage (Mayo, 1986), or the so-called Guaranteed Insurance mortgage, as it's called and used in the United State of America. This type of mortgage applies only to the ex-servicemen in the United State and the crux of the law pertaining to real property is that the Veterans Administration will guarantee a certain percentage of a mortgage loan to a veteran up to a maximum amount to qualified lenders who lend money on homes purchased by veterans. The amount of the maximum guarantee, the rate of interest, and the length of the loan can be changed by an act of Congress. They have varied in the past and will probably be changed again. In some areas (Dobson, 1976), under changes in the law made by Congress, the Veterans Administration has loaned money directly to veterans. For example, from time to time sums of money have been allotted to various countries to be loaned to veterans within that country who have been unable to obtain a loan from a bank or other lending institution. In these cases, the veteran obtains a letter from each of two lending institutions who indicate that they will not lend money to the veteran. After having done this, the veteran makes direct application to the Veterans Administration.

(5) Conventional Mortgage

The term conventional mortgage as it is presently used (Osanwonyi, 1987) refers to a mortgage that is neither the insured nor guaranteed. In general it can be said that the down payment on the conventional mortgage is higher than either the insured or guaranteed mortgages. However, in 1972, homebuyers could borrow from Savings and Loan Associations up to 95 percent of the value of the home. The loan is guaranteed or insured by a mortgage insurance company, which is determined to be "a qualified private insurer" by the Federal Government or FMBN. The maximum 95 percent conventional loan is ₦30,000.

The capital which flows into the conventional mortgage market remains fairly stable while both insured and guaranteed mortgage outlays have a tendency to fluctuate because their relatively fixed interest rates make them more sensitive to changes in the interest rate. Insured and guaranteed mortgages account for about 20 percent of the total mortgage market.

(6) Amortizing Mortgage

This is the most common form of mortgage (Falegan, 1985) used in insured, guaranteed, and the conventional - type mortgage. Under the terms of this form, provision is generally made for monthly payments of principal together with interest. The principle of amortization became common as a result of the mortgage foreclosure experience during the depression of the thirties. It enables regular payments to be made on principal and the creation of equity in the property.

The underlying reason for including an amortization feature in a mortgage (Olajide, 1985) is that it will tend to prevent many foreclosures in the event of a depression. But a downturn in the business cycle might cause a number of these homes to be foreclosed in spite of partial amortization. In addition, the phase of the business cycle in which the loan is initiated is decisive. This means that the closer a loan is made to a major downturn in consumer income and real estate values, the greater the chance that it will end in default.

(7) The Budget Mortgage

The budget mortgage (Owuegbu, 1987) is a further development of the self-amortizing mortgage. Although the self-amortizing mortgage provides for monthly payments of part interest and part principal, the budget mortgage includes in the monthly payments one twelfth of the year's taxes, a proportionate amount of the yearly fire insurance premiums, and any other charges which might, if left unpaid, constitute a basis for the foreclosure of the mortgage. Generally, when the mortgagor enters into a budge mortgage, he pays six month's taxes in advance at the title closing in order to provide the lender with a revolving fund. Any surplus in the fund is returnable to the mortgage when he has made his final payment on the mortgage.

(8) The Package Mortgage

The package mortgage (Owuegbu, 1987) is a mortgage of recent innovation that goes a step further than the budget mortgage. Usually, it incorporates all the features of the budget mortgage plus payments for certain mechanical equipment put in the home. In this manner all charges are met in one payment.

(9) The Open Mortgage

The term open mortgage (Owuegbu, 1987) is employed to refer to a mortgage that has reached the due date but has not yet been paid. The mortgagee in these cases can demand payment at anytime, but if his security is good and he is receiving a fair return on his investment, he may be content to allow the mortgagor to continue paying interest and leave the mortgage "open."

It should be remembered that there is a statute of limitations on mortgages in most states. Thus (Osanwonyi, 1986) if there is no payment of interest or principal for six years, the mortgagor has a defence in the event of a foreclosure action by the mortgagee.

(10) The Blanket Mortgage

A blanket mortgage (Robinson, 1962) is briefly defined as a mortgage that covers more than one parcel of real property. It is a type of instrument that is often used by builders to cover construction loans.

The partial release clause is generally used in conjunction with the blanket mortgage. It is a clause that is inserted in a mortgage stating that upon partial payment on the mortgage, the mortgagee will issue a partial satisfaction piece that releases a particular parcel or lot from the terms of the mortgage. It would be worded substantially as follows:

The mortgagee agrees to release any lot from the lien of this mortgage upon payment to him by the mortgagor or his assigns of the sum of ₦100 per lot upon the lands so released.

(11) The open-end Mortgage

The open-end mortgage (Megbelube, 1983) is a mortgage in which the borrower is given a limit up to which he may borrow. For example, the loan may be authorized up to ₦20, 000, and the borrower may initially borrow only ₦ 15,000; but at a later date he may increase the loan to the maximum authorized, in this case ₦20, 000, without changing the terms of the original agreement.

The open-end mortgage is very often used in connection with corporate loans, for example, the mortgage bonds of the former Northern California Power Company. In that instance a total of ₦10,000,000 was authorized, but only ₦5,000,000 was issued. A provision was made in the indenture that the balance could be issued if he net income (after allowing 15 percent of gross income for depreciation and maintenance) was equal to two times the interest on all outstanding bonds.

2.3 HISTORY OF FEDERAL MORTGAGE BANK OF NIGERIA

The Federal Mortgage Bank of Nigeria (FMBN) was established in 1977, as a fully owned Federal Government Housing development finance agency under the Federal Mortgage Bank Act. No. 7. of 1977. This followed the dissolution of the Nigeria Building Society (NBS), whose assets and liabilities the FMBN took over.

The Nigeria Building Society was itself incorporated in December, 1956 wit a Capital of ₦3.25 million and jointly owned by the Commonwealth Development Corporation (CDC), the Federal Government of Nigeria and the then Eastern Nigeria Government in the proportion of 60 per cent; 31 percent and 9 percent respectively. The Federal Military Government however took over the CDC share of the capital in 1972. The authorised capital at the time FMBN was established in 1977 was ₦20 million.

The Dutch firm of BOSBOOM (Management Consultants) was contracted by the Federal Government to supervise the take – off of the new bank for a 3-year period from 1977.

With the exit of the Dutch Management Consultants in July 1980, the Federal Office of Statistics (F.O.S.), the Management operations of the Bank became wholly indigenous. At the same time there was also a change in the authorised share capital and ownership structure of the Bank. The authorised share capital increased to ₦150 million jointly subscribed by the Federal Government and the Central Bank of Nigeria in the proportion of 60 percent and 40 percent respectively. The Federal Government appoints the Chairman and the members of the Board of Directors.

By 1981, the Bank had established branches in all the state capital including the Federal Capital Territory underscoring its national outlook; since then, additional thirty-four (34) Home Savings Centres had been established in major urban area outside the state capitals. This is decidedly to expand its spread of service delivery as well as to widen its Savings mobilisation base.

The 22 Branch offices are organised into 4 zones, otherwise known as Area Offices (F.O.S., 1985). Each Branch Office is self-accounting and is empowered to approve individual mortgage Loans up to ₦200,000. The low lending rate and longer maturity spread of FMBN loans have led to an influx of mortgage applications from all over the Federation since 1977 to date.

The Mortgage Assets of the Bank have been increasing steadily over the years. As at 30th June, 1977, the net mortgage assets of the Bank was ₦ 75 million but as at

31st December, 1989 the net Assets of the Bank stood at ₦ 685,536.00 million. Between May 1979 – December 1989, a total loan disbursement of ₦412, 878,368 was made to 10,595 Mortgagors.

2.4 MORTGAGE LOAN PROCESSING IN NIGERIA

A mortgage in law (Ituwe, 1983) is described as the transfer of interest in property as security for a loan. The borrower is known as the mortgagor and the lender, which is FMBN, in this case is the mortgagee. A mortgagor may mortgage its landed property, fixed assets or lease hold property for period of up to 5 or 10 years in order to obtain funds from its financial operations. Banks, insurance companies and building societies are often ready to accept property as security for payment of money to be avoided on the discharge of the debt or loan.

When the property is discharged to mortgage, the interest in the property passes to him while possession of the property remains with the mortgagor (the borrower). The mortgagor has the right to the use of the property mortgaged and to receive rent if it is land or building, but he will not be allowed to the dispose of the property as the interest in the property is vested in the mortgagee.

There is legal as well as equitable mortgages. FMBN operates only legal mortgages which conveys by deed, the legal estate in the property to the mortgage's subject to the mortgagor's right of redemption. The borrower is allowed to repay the loan with interest over a long period of years on a monthly or quarterly basis by regular instalments. The bank has the right to appoint a receiver in special circumstances who will take over and manage the property on behalf of the borrower.

Other banks operate equitable mortgage (which FMBN does not operate). It conveys interest short of the legal estate in property either because the form of transfer is equitable. (i.e the creation by legal owners of equitable rights by the way of security) or the mortgagor's interest is equitable. This is usually on short-term basis and it could be evidenced in writing, by deed, or by mere deposits of title deeds of property.

In broad outline, mortgage functions as performed by the FMBN are regulated by the decree establishing it as a government agency. The FMBN has 19 branches operating under the umbrella of seven zonal area offices. The area offices are empowered only to approve individual mortgage loans up to ₦65,000 to mortgagors. The wholesale loan type introduced in 1980 to serve the needs of state housing corporations, estate developers and big commercial ventures has also been steadily stepped up to provide credit facilities for borrowers. With the introduction of this type of loan, state housing corporations and private estate developers have been able to carry out residential, commercial and industrial projects running into millions of naira which otherwise would have been impossible if there were to be financed by other low lending rate and longer maturity period.

Faced with the problem of lack of funds along with rapid rise in the number of applications for loans (Onabule, 1988), the bank has however been able to keep its head over water level for a sustained period to achieve its present nationwide growth. Apart from broadening its operation in providing long-term credit facilities for residential accommodation; the FMBN has other objectives which include the provision of financial assistance to companies manufacturing building materials in the housing sector.

The FMBN operate other mortgage scheme such as:

a) Mortgage Guarantee Deposit Scheme: This is a scheme arranged between the bank and an employer for the purpose of granting loan to its employees. This employer deposits 10% of the shortfall by entering into legal agreement with the bank, executing a guarantee deed in which it pledges the deposits as security for the loans.

b) Mortgage Administration Deposit Scheme: This is a scheme whereby an employer deposits money with the FMBN and allows the FMBN to administer their housing scheme. A lump sum is deposited with the FMBN by the employer for the purpose of granting loans to its recommended employees. Thus, the bank grants mortgage loans to the employees under an agreement between it and the employer.

To increase its cash flow resources, the bank has embarked on savings mobilization and has established nation-wide saving centres to cater for this drive.

2.4.1 Condition For A Loan

Generally, mortgage processing in the FMBN (Ituwe, 1983) is a rigorous exercise involving the lender and borrower, employing the services of estate surveyors, architects, engineers, accountants, town planners and government agencies before a loan is granted to an individual to construct or purchase a residential building, he will be required to produce:

(a) An applicant for a loan must be a Nigerian and must be at least 21 years old.

(b) The loan must be for purpose of:

i. Construction of a residential house

ii. Development of a property

iii. Repair or renovation of existing property

(c) The architectural and engineering drawing for a proposed development must have been approved by the Town Planning Authority.

(d) The survey beacons demarcating the site of the subject property must be clearly identifiable or the address of the property must be well recognisable.

(e) The applicant must hold valid title to the land e.g. Certificate of Occupancy, and under the provision of Land Use Act and other laws currently in force, the consent of the State Government to the mortgage must be obtained.

(f) An applicant must produce satisfactory evidence of income (FMBN handbook) i.e.:

i. Self-employed persons:-. Recent pay-slip and payment of tax thereon.

ii. Employed persons:- Statement of Bank Account

iii. Companies:- Audited accounts for the immediate past 3 years and project cash flow.

(g) Every applicant must submit his current income Tax Clearance Certificate.

(h) Every applicant is expected to have a savings account with the Bank and must maintain regular monthly savings in any of the six types of savings account.

i.	Popular Savings	Bearing interest at 17% per annum
ii.	Target Savings	Bearing interest at 17.25% per annum
iii.	Term Savings	Bearing interest at 17.5% per annum for 3 year term
iv.	Children's Saving	Bearing interest at 18% per annum
v.	Fixed Deposit	Minimum of 18% varies up to 2%.

2.4.2 Types of Loans

At the moment, the bank operates two types of loans:

i. Social loan

ii. Commercial loan

Social Loan: These cover private residential houses, which would attract a rate of interest of 8% up to the maximum ₦65,000.00. The service charge is ½% of the amount of the loan or ₦25.00 (whichever is higher), while the inspection fee is ₦50.00 per inspection. Repayment period is up to 20 years for individuals and 10 years for Housing Corporations with three months moratorium for both. The personal estate is 10% of the cost of valuation of the project.

Commercial Loan: These include private estate or mixed development attracting 11½% rate interest, office development, specialised buildings, and other commercial property ventures with 12% interest rate. Servicing charge is ¼%of the amount of loan or ₦500.00 (which ever is higher). There is ₦100.00 inspection fee per inspection and repayment period is 7 years with 2 years moratorium. Personal estate is 20% of the approvable loan.

However, in all respects, uniform repayment arrangement applies. This is usually done in two stages:

- Repayment of interest only - This is monthly during the construction and / or moratorium period.
- Repayment of both capital and interest - Payable monthly obtaining the final stage payment and after the moratorium period. Whenever loans are fully redeemed, FMBN will release the title document accordingly.

The FMBN loans are usually disbursed in stages. This among other things helps to ensure that the money is properly utilised in mortgage development.

2.4.3 Method of Loan Application

Application forms are obtainable from (FMBN handbook) any branch office of the Bank. Completed application forms and other supporting documents should be for warded to the branch in the capital of the state where the property is located. An official receipt must be obtained for any payment made. Documents supporting the application include:

i. Photocopy of title documents; in the case of outright purchase, letter of offer from the vendor.

ii. Copy of the approved plans

iii. Statement of income and evidence of tax paid (a pay slip should suffice if PAYE tax is shown).

security. The bank will also determine as to whether the security is burdened with erroneous covenants to affect its rights. It is of paramount importance to search wherever a mortgage may be registered to ascertain prior charges.

Another search which would be conducted at the local land registry is to determine such matters as road and town planning schemes. After making the relevant investigation the bank will now value the security, and arrangement will be made to insure the property against possible disasters. Often the bank will ensure that the security is a house or residential development, office development, shop or estate development. Which can be easily sold in the event of the mortgage defaulting. A warehouse or industrial building may not be easily saleable therefore due care is always taken when accepting such securities.

Although there are two types of mortgages, viz. Legal and Equitable mortgages, the FMBN only operates on the legal mortgage which conveys by deed, the legal estate in the property to the mortgage subject of course to the mortgagors right of redemption.

2.4.5 Basic information on Savings & Deposits

The bank (FMBN handbook) promotes individual savings and institutional deposits. As a result, it offers a complete range of Savings and Investment Scheme as follows:

(a) Savings

(b) Deposits

Savings

The bank operates four different types of Savings Accounts:

Popular Savings can be opened with as a little as ₦20.00

i) Contract Savings: This account can be opened by a Nigerian whose income is not more that ₦4,800.00 per annum. The minimum amount required to open an account is ₦20.00.

ii) Children Savings: This is a Scheme specially designed for the benefit of children who are below the age of 18 years. You can open an account with as little as ₦5.00

iii) Target Savings: It is designed for regular monthly savings over a period of three (3), four (4) or five (5) years. A higher rate of interest than the rate paid on Popular Savings is earned as an incentive for regular monthly savings. Amount of monthly deposit is fixed when the Account is opened, the minimum being ₦10.00 a month.

iv) Term Savings: Specially designed for investors who require a high return on their investment and are prepared to leave their Savings untouched for a specified period. The investment must be a multiple of ₦ 100.00 and the minimum investment in Term Savings is ₦ 200.00

Deposits

The Bank operates two different types of deposits:

i. Institutional/Term Deposits

ii. Mortgage Administration Deposits

The specific conditions applying to each type of deposit are outlined in the following paragraphs:

i) Institutional and Other Term Deposits

These deposits are accepted by the Bank from Companies, Institutions, Pension Fund or Individuals for any amount without limit. A sum is deposited for a fixed period of time at a rate of interest. The Term is negotiable and can be for a minimum period of 12 months.

Interest rates determined by the Bank in line with current market rates but not lower than the minimum promulgated by the Central Bank of Nigeria in their Credit guide – line for the current fiscal year. Interest may be paid or applied to the deposit annually or bi-annually in accordance with the wishes of the depositor.

Rates of interest are constantly under review and the Bank currently quotes the following rates. For Term Deposits of 12 months and above (negotiable) 18% and varies up to 22% per annum. Rates for deposits of ₦1,000,000 or over are negotiable.

ii) Mortgage Administration Deposit Scheme

This is a scheme designed (FMBN handbook) to assist employers of labour who cannot, or do not wish to administer their staff housing scheme.

A lump sum is deposited with FMBN by the employer for the express purpose of granting loans to recommended employees of the depositor. Terms and conditions are negotiated between the depositor and the Bank and a legal agreement is executed which embodies the rate of interest paid by FMBN on the deposit, the interest to be recovered from the borrower and the minimum level the deposit will be allowed to be reduced to.

The Bank will then grant mortgage loan to recommended employees under terms of agreement. The residue of the deposit attract at the predetermined rate, usually 11% per annum. Repayment are deducted at source by the employer from the employees salary and paid to the Bank. These repayments, including interest, are applied to the deposit annually.

For this service the Bank charges a fee of 1.5% per annum on the outstanding balance of completed mortgages. Although depositors are providing the entire finance for the loan granted to their staff, the advantage of this scheme is that all the administration of the loan is being handled by the Bank and it could prove most beneficial to employers who are influenced by the terms of Housing Act of 1979.

2.5 ROLE OF OTHER FINANCIAL INSTITUTIONS IN HOUSING DEVELOPMENT

Other relevant financial institutions that attributes fund into present housing systems (FOS 1985) are Commercial banks, Marchant banks, Insurance companies and National Provisional Fund (NPF). In previous years, commercial and merchant banks were directed by Central Bank of Nigeria (CBN) credit guidelines to treat the housing sector as preferred sector and to allocate at least 70% of their loanable funds to this sector. The guideline further stipulated that where the total housing loans granted by the banks in any year was lower than the level prescribed by CBN, the short fail to taken from their own and on-lent-through CBN to FMBN.

The main problems faced by banks in granting mortgage loans derived from the constraint imposed by the maturity structure in their deposit which are largely short-term. In order words, banks are expected to give long-term mortgage loans without predominately short-loans deposits. There were also problems of differential interest rates for the housing sectors as compared such sector as commerce and industry. As a result, the participation of commercial and merchant banks on housing delivery was and remained limited.

Insurance companies form a special category of financial house. A substantial proportion of their life fund is long-term duration, and as such they can be made more active and effective in mortgage business than commercial banks. At present, however, the CBN credit guidelines do not requires them to invest a certain minimum percent of their funds on the housing sector as is the case with commercial and merchant Banks. In fact, section 18 of the insurance company degree No 59 of 1976 provides that insurance company should not invest more than ten percent (10%) of its non life investment of life funds in real property but is put at twenty five percent (25%) by the same decree.

The NPF as at present plays a very insignificant role in housing finance. For instance of its total investment portfolio of ₦336.3m in 1980: ninety six percent (96%) or ₦325.9m was invested in government development stocks as required by law. By comparison, similar institutions in Brazil and Jamaica utilize their funds for workers welfare in housing. There is the need therefore to reverse the investment patterns of the NPF in the new housing finance system.

2.6 PROBLEMS OF FINANCING HOUSING

From the commencement of its operation in 1977 to date, FMBN has granted loans valued at ₦44.6m to only 8,824 Nigerians. The bank concentrated its operations on social loans which accounts for 90% of its total lending portfolio while wholesale lending practices does not favour low-income household. Thus, in effect, the objective of existing low-income group to own houses through subsidized mortgage loans has not been realized. Given the absence of primary mortgage institutions and greater competition from commercial banks for resource mobilization, FMBN has been unable to mobilize adequate funds for the housing sector. Apart from the equity capital of ₦150m, the banks' major source have been loans from the Federal Government and CBN. Funds from savings deposits rose from ₦21.4m in 1979 to ₦131.30m in 1986. However, funds available from all these sources have proved grossly inadequate to meet actual demand for mortgage loans.

The share capital of FMBN is completely owned by the Federal Government and CBN. The present level and structure are too restrictive and consequently limits average. This constraint was extremely analysed in a paper by Osawonyi (1988).

Considering the unfavourable economic conditions, we all in government cannot be expected to increase its equity share nor provide loan capital, and relevant institutions are yet to establish the process required from FMBN to gain access into the capital market. The overall consequence is a significant financial handicap on the operations of FMBN.

The loans of the bank are for a long maturity period, 15 years is the maximum stipulated by the government monetary policy for residential housing because the bank is operating a fixed interest rate within an economy with double digit inflation rate, it has been subjected to capital losses.

The residential term loan are operating in a market dominated by sources of fund which have relatively shorter period making and commitments. For example, the current interest rate on residential loan is over 17%, the same in savings, which are in the short-term.

The nature of FMBN operation and state of the economy dictates the short-term loans. Moreover, the harmonization of interest rate in the country by CBN has eroded the competition edge, which the bank had in terms of a higher rate of interest on saving deposit. The depressed economy and swift decline in frequent repayment has prevented loans being turned over as optionally planned.

The FMBN operates the annuity system of mortgage repayment. This requires a fixed monthly installment, which includes both the principal loan and interest. The monthly repayment remains constant except, if there are changes in interest rate. The period of repayment depends on the age of the applicant, his income and the type of property i.e. whether it is owner-occupier or commercial development.

2.7 SUMMARY

Housing, an essential need in any community, has received varying conception by different administration. This can be attributed to the huge investment involved in the provision of adequate housing.

Various housing finance institutions have sprang up in Nigeria to cater for these problems. However, only FMBN has the sole responsibility of not only monitoring other finance institutions but also providing capital for housing right from inception.

The constraints involved in implementing this policy vary. The population figure of the country makes it very difficult to meet the ever-increasing demand for housing financially.

Also the FMBN concerns itself more with social loans and its lending practice do not favour the low-income earners.

The federal government control on the bank is equally questionable, because it tends to give the FMBN an upper in the capital market than other financial institutions this has the consequence of generating handicap within the FMBN. FMBN that is meant to give long-term loans now operates on short-term residential loans. And as a result, the housing scheme or programs continues to stagnate. FMBN should use the advantage it has over the finance houses adequately. There and then only it would be able to assert itself in financing housing in Nigeria.

As economic recession sinks into the purse of individual, the propensity to spend incomes on housing diminishes. The fluctuating prices and unemployment are doing a lot of damage to our economy in general and mortgage repayments in particular. This, not withstanding, the bank has its remedies i.e. realization of its securities from bad debtors. However, the bank only applies these remedies on every bad case sparingly since its aim is to provide shelter to people and not to deprive them.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 INTRODUCTION

The importance of mortgage financing in financing literature and especially as it affect FMBN the apex bank in mortgage financing in Nigeria makes for a well formulated research methodology so as to justify the conclusions(s) of the research. The major goals of this research are to determine the impact of the lending policy of FMBN in line with Federal Government goals in achieving the projected housing programmes and the extent of the involvement of the other agencies, which work hand in hand with the FMBN. To reliably establish the facts relating to these objectives a selection of sample size, research methods of technique chosen are discussed in this chapter.

3.2 RESEARCH DESIGN

There are a number of research methods available to researchers from which an appropriate one suitable to the problem at hand can be chosen. Research methods deal with the nature of the investigation to be undertaken and this have been classified into three(3) areas namely:-

a). Questionnaire method;

b). Direct Interview method;

c). Data analysis method.

Therefore choosing a particular methods becomes an important factor for validating the conclusion of research based on the research questions.

The questions that one has to bear in mind are:

(1) What is the existing mortgage policy of the FMBN?

(2) What generally are the activities of the FMBN?

(3) How and to what extent has the bank cope, manage and finance the housing needs of Nigerians since its inception in 1977?

(4) What are the inherent problems, and how has the bank been able to tackle them?

3.3 SAMPLE DESIGN TECHNIQUE

In the process of analysing the apex role of the FMBN towards the National Housing Policy Fund Decree No. 9 f 1992, a comparison of the past and present roles of the FMBN was made.

FMBN being an apex mortgage institution will have the data of other mortgage banks and invariably the information gathered for this research are drawn largely from statistical information of the FMBN operations issued by the research and project development department of the bank.

Hence, the samples are strictly taken from the following.

(a) FMBN loan application from 1977 to 1994;

(b) FMBN loan approvals and disbursements for the same period.

(c) FMBN total savings also for the same period.

And therefore simple analysis technique is employed here.

3.4 SOURCES OF DATA AND COLLECTION METHODS.

The nature of data is a reflection of what the study is set to achieve and in this case the study has been designed to evaluate the lending policy of FMBN and its impact on the mortgage institution.

The number of applicants interested in obtaining such loans, amount available for disbursement, the bank guidelines and the government policies. It consists of both primary and secondary data respectively. Most of the secondary data were information extracted from the statistical information used by the FMBN.

The data used for the study were obtained from directly from FMBN; the questionnaire method was also used to extract relevant information from various walk of life.

Direct interview was employed and administered to selected individuals, bank officers, other higher banking officers in both public and private organisations.

The distribution of the questionnaires was reasonably conducted, above 205 questionnaires was contributed to cover (13) thirteen States within the Federation, maximum of 24 were set out to the selected States.

3.5 DATA ANALYSIS TECHNIQUE

Simple graphical method and regression analysis method or approach was used to determine the relationships between Approval, Savings and Disbursements.

Results obtained depend basically on two factors. The use of appropriate techniques and the reliability of the data being used. For the purpose of obtaining a clear and sample interpretation the principle of regression analysis which allows the determination of correlation, random residuals, regression coefficients and prediction of values which is relevant to the problem under study. The logical analysis of the model chosen here is regression model. The estimation technique to be used is the familiar ordinary least square method with the usual conditions or assumptions which enables the technique to be handled. There are some basic assumptions of multiple regression especially in business and these are as follows:

1. In regression, a linear relationship is assumed to exist. This assumption means that the dependent variable must be related to each of the independent variables. However, a number if non-linear relationship can be transformed into linear ones where necessary. The easy way of achieving linearity when not existing is to transform the variables into new ones that do not exhibit linear relationship.
2. The second basic assumption is that of the variance of regression errors. This is often referred to as homoscedesticity but when there is a lack of constant variance, it is known as hetroscedesticity under this assumption, the forecasting errors must be constant over the entire range from the beginning to the end.
3. The residuals are also assumed to be independent (random) of one another. This means that each residual value is independent of the values coming before or after it. When this assumption is not met, it is said that serial correlation (or auto-correlation) exists among successive residual values. The means of identifying independence of the residual include a graphical representation of those values examining the signs of the residuals.

4. The fourth assumption is applying multiple regression analysis of the residual values, if plotted, it should be approximately normally distributed. This is generally not restrictive since the residue represents the outcome of a large number of non-important factors that influence the dependent variables such as a relatively insignificant degree. It is necessary to state here the form of the applied regression model, which is used in this study.

$Y = a_0 + b_1X_1 + b_2X_2 +.., + b_nX_n$ $\Rightarrow$ Multiple Regression Equation.

And a simple regression of $Y = a + bx$. $\rightarrow$ Straight Line Equation

These two equations are used to suite the nature of the data to be analyzed. From the equation above, Y is termed the dependent variable or sometimes called response Y: this is expressed as a function of independent variables or regressor X as they are sometimes termed. In the equation, there are two independent variables: X_1, and X_2 upon which variable Y depends or which determine or explain the dependent variable. In the case of the equation above, the independent variables are two as in the case of the multiple regression; in some cases however; they can be more depending on the complexity of the problem at hand. This is why it is termed multiple regression.

a is a constant term and b_1 and b_2 are coefficients of X_1 and X_2 respectively. The constant term and the coefficients are determined by the least square method which minimizes the sum of the squares of the errors of Y. The determination of these values has been made easy by computer programs specially designed to solve related problems. SPSS (statistical software) was used in this case. Using this technique, the study determines the coefficients of the independent variables and their significance. This helps to state the variables in the dependent variable explained by both individuals and the combination of independent variables. In all, the regression analysis determines whether the two regressors are what explain the lending policy of FMBN and also charges in the level of loans from one year to another whether it is influenced by:

(a) Level of savings

(b) Demand i.e. application and

(c) Government policies.

This is explained based on the significance of the coefficients, which represents the important parameters as stated above.

See appendix 7 for the mathematical process involved in obtaining the Multiple Regression Equation.

3.6 JUSTIFICATION OF TECHNIQUE OF ANALYSIS

It has been stated that this study spans a period of years, which cut across the different economic and political situation in Nigeria from 1977 to 1994. Within this period there had been changes in the structure of the nation's economy. The consequence of these changes was felt by the bank resulting in major government policies.

This approach is a simple approach that determines relationships between Approval, Disbursement and Savings, in order to determine whether correlation exists between the dependent variable and the two independent variables; where: approval is the dependent variable (Y), savings and disbursement are the independent variables (X_1) and (X_2) respectively as shown in the equation above.

Bar charts were also used to illustrate the relationships between Approval and Disbursement, Savings and Disbursement respectively. See appendices.

CHAPTER FOUR:DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

For an analysis to be valid depends on the relevance of data, its logical presentation and the subjection of the same to some analytical tools considered appropriate. In this chapter, the crux of the matter is the subject collective data to simple aggregate analysis that will present the result in a form that make it easily readable and conclusion on the issue made to determine the impact of changing and the Lending Policies of the FMBN.

4.2 REVIEW OF PAST HOUSING POLICIES AND PROGRAMMES

This review is highly necessary because it will give a clue as to why the Federal Government introduced a new Housing Policy. The involvement of the past governments in housing sector could be examined under distinct phrases.

4.2.1 THE COLONIAL PERIOD

During the early Colonial Period, the housing activities and policies of government focused essentially on the provision of quarters for the expatriate staff and selected indigenous staff of specialized occupation like Railways, Police etc.

This period saw the establishment of GRA's as well as few "African Quarters". Effort were not made by government to build houses either for sale or rent to the general public and little was done to order the growth of settlements outside the government ordinance. Lagos Environmental Development Bank (LEDB) was created in 1928 and changed with the effective planning and development of Lagos in the early 1920.

After 1954 and with the approval of the Lagos Central Planning Scheme, the LEDB for the first time attempted to solve the problems of public housing in the metropolis. This effort resulted in the following schemes.

i. Workers Housing Estate and Re-housing Estate, Surulere.

ii. Workers Housing Estate, (Phase II) Surulere.

iii. Akinmoyin and Eric Moore Housing Estate, Surulere.

iv. Freehold Housing Scheme and sites and services Estate at Surulere, Apapa, South-West and South-East Ikoyi, Ilupeju and Isolo.

In 1956, NBS (Nigerian Building Society) was established to provide mortgage loans. However, its mortgage operations did not achieve much because of limited financial resources and the poor responses of the public of the savings scheme operators by the Nigerian Building Society (NBS). During the same year, the Colonial Government introduced the African Staff Housing Fund (ASHF), which was meant to encourage African Civil Servants to own their own houses. Also prior to independence, various state housing corporations were established by the Regional Governments to provide housing for the general public. These corporations were unable to extend their services to low income group, but they formed the nucleus of modern housing estates in Nigeria.

4.2.2 THE POST INDEPENDENT PERIOD 1960-1979

During the period immediately after independence, emphasis was placed on the 5 years development plan as the vehicle for economic growth. With the outbreak of the civil war in 1967, the housing situation deteriorated particularly in the war affected areas as energies and resources were concentrated on the execution of the war. In the same period, more Housing Corporations were established in the newly created states. Their contributions were rather insignificant, their impact within the medium and upper income housing market remained low.

In 1971, the National Council of housing consisting of all states commissioners responsible for housing was established. This markets the first significant and direct attempt by the Federal Government to intervene positively in the areas of housing. This led to the establishment of National Housing Policy (NHP) in 1972 during the second National Development Plan period. The Federal Government through an enabling Decree intended to construct 59,000 dwelling units in each of the 11 state capitals. The Federal Housing Authority (FHA) was created in 1973 to coordinate a nation wide programme. Also in May 1972, the functions of the African State Housing Scheme (ASHS) was taken over by the newly established Staff Housing Board (SHB) for the purpose of granting loans to civil servants to enable them build or purchase their own houses. The loans were subjected to a maximum of ₦40,000 but the limit has since been increased to ₦80,000. It was the third National Development Plan (NDP) 1975-1980, that witnessed the most significant intervention by the Federal Government in the housing sector. The Federal Government decided to participate directly and actively in the provision of housing than it principally to the private sector. A total of ₦2.6 Billion was earmarked for the implementation of the various projects. During this period, a total of 202,000 dwelling units were programmed for construction, comprising 50,000 units in Lagos and 80,000 units in each of the other 19 states.

In 1975, a new Federal Ministry of Housing, Urban Development and Environment was created and charged with the responsibility of initiating and coordinating the policies in housing related areas within this period, the following panels and committee were constituted specially to deal with some delivery.

i. The committee on standardization of house type and policies (1975) was set up and this marked the first attempt by the government at recognizing the housing problems of low-income group who earned less than ₦3,000 per annum. The recommendation of the committee resulted in acceptance of the low housing concepts and strategies of the World Bank.

ii. The Anti-inflation Task Force (1976) was set up to examine among other things the current inflationary fiscal monetary recommendations, which had significant effects on the housing sector.

iii. A rent panel (1976) was to review the structures and level of rent in the country. The recommendation resulted in the establishment of State Rent Tribunals, which have proved ineffective in controlling rent.

iv. The land ownership system in the country and their recommendation led to the promulgation of the Land Use Decree in 1978 which was a major step on the land reform aimed at making land readily available for development.

The NBS was converted to FMBN with capital base of ₦200 million, which was later increased to ₦150 million in 1979. The impact of the FMBN during this period was not very significant and most of its loans went principally to middle and high-income group.

4.2.3 THE CIVILIAN ADMINISTRATION

The increasing deficit urban housing as well as its continuous deterioration in the rural area dictated the high priority rating given to housing by the defunct civilian administration. The elaborate NHP was embarked upon in 1980 based on the concept of affordability and citizen participation. The target group was the low-income earners whose annual income did not exceed ₦5,000 or the one bedroom core houses and also the medium income group with annual income not exceeding ₦8,000 for the three bedroom houses.

A total of 40,000 units were to be constructed annually nation wide with 2,000 units located in each state including Federal Capital Territory (FCT), out of the state allocation 7% was earmarked for the low income earners. However, by June 1983 only 32,000 units had been completed while the overall achievement was only 20%. It is pertinent to note that midway through the implementation, the second phase of the programme was commenced comprising 20,000 units to two bedroom core houses also for the low-income group. This phase of the programme failed to take off in most states.

Although about ₦1.9 billion was budgeted for housing by the Federal Government in the NDP 1980-1985, an estimated ₦600 million was expended on the implementation of the Low Cost housing programme. In spite of this very high level of investment, the impact of the programme on the overall housing market was extremely negligible.

The following factors were responsible for the failure of the direct construction programme:

i. The adaptation of a single design for the entire country irrespective of the varied cultural climatic differences.

ii. The distribution and choice of sites bore little or no relationship to the effective demand for housing. The site for the programme numbers over 400 and this was clearly beyond the executive capacity in our construction industry.

iii. Most states politicised the whole affairs and therefore offered land to the Federal Government in very remote areas with poor terrain. This singular fact delayed implementation and increase in cost of infrastructural development considerably.

iv. The appointment of contractors was based principally on party patronage rather than on capability and experience. The issue of "Nominated Suppliers" did not have the desired effect of making building materials readily available and cheap to contractors. These "Nominated Suppliers" bedevilled the whole concept with fraud and non-performance.

v. The chairman of state allocated the houses to party members who neither had need for them nor could be classified as low-income earners.

4.3 LENDING OPERATIONS OF THE FEDERAL MORTGAGE BANK OF NIGERIA

As has been observed in chapter one in the background information, the Federal Government established the FMBN in 1977 as a successor to the NBS. To further enhance its traditional role of mortgage lending, in 1993, the Federal Government took a deliberate decision to commercialise the activities of the Bank for the realization of government policy of providing shelter for all Nigerians.

The government also went ahead with the launching of the NHP, which in effect made the function of the Bank (FMBN) to become trifocal:

a. A retail lending institution

b. The apex-lending Agency in the country.

c. A regulatory authority in the Housing Finance Sector.

Given the above responsibilities (Olukoya, 1994), revealed that the Federal Government de-consolidated the activities of the Bank into two autonomous business units to ensure operating efficiency and profitability. The old Federal Mortgage Bank now splits into two autonomous institutions namely:

i. Federal Mortgage Bank of Nigeria (FMBN)

ii. Federal Mortgage Finance Limited (FMFL)

FMBN has the responsibility to ensure the rational evolution of housing finance institutions, and development of appropriate market instruments for resources mobilization and also ensuring that the objectives of the NHP are realized. The evaluation of lending policy of FMBN depends on the category to which the lending falls into.

As Olukoya, (1994) further observed, under Decree No. 82 of 1993, the Retail Mortgage Operations of the former FMBN is exercised and all the mortgage business hitherto carried on by the Mortgage Bank and all the assets, funds, resources and other movable or immovable properties became vested in FMFL by virtue of this Decree No. 82 of 1993.

The Decree also specifies the main functions of FMFL as:

i. To ensure equitable spread of mortgage lending activities all over the country.

ii. To operate as an efficient and effective mortgage institution which will be a role model for the private mortgage institutions, and also dictate the level and space of growth in the industry.

iii. To minimize avoidable and fraudulent investment losses, and ensure a timely and adequate loan recovery performance, in order to create opportunities for structured expansion in the provision of housing finances.

Furthermore, on the constraints of the lending policy of the FMBN, as an outfit, (Olukoya ,1994) remarked that mortgage loans are for long maturity period of 15-25 years as the minimum term stipulated by the Government Monetary Policy for residential accommodation.

According to Onuegbu, (1986), before a loan is granted to an individual to construct or purchase a residential building, he will be required to produce:

1. The title deed of the property to be developed, land certificate or certificate of occupancy for the land.
2. The architectural and engineering drawing of the proposed development which must have been approved by the two planning authorities.
3. Satisfactory evidence of income as ability to repay the loan.
4. Income tax clearance certificate for three years.
5. Consent of government with the Bank with a minimum of ₦500.00 at the time of application for a mortgage loan.

Where a housing corporation, private estate developer or a company is applying for mortgage loan, the following documents should be produced:

1. Feasibility and viability report in respect of the projects prepared by qualified estate surveyors and valuers. The report which should describe the proposed development should include an estimated cost of development, cost of professional services and cost of infrastructural facilities such as roads, water, sewage facilities and electricity supply in the mapped area for development. The report should also specify the estimated selling price of the housing units and projected cash flow to indicate the extent of income from proceeds of sale or rent to service the loan.
2. Approved layout plan and architectural drawing in respect of the various components of the project.

3. Memorandum and articles of association of the company. In the case of a housing corporation, the law or legal authority to borrow and the corporation's right to transfer title to the purchasers.
4. Certificate of incorporation of the company.
5. Audited accounts of the company for three years proceeding the years of application for loan.

Proper examination of these documents is necessary since they are the protection the Bank has to secure its loan. The Bank will then proceed to make searches in the land registry to ascertain if there are other changes registered against the loan subject.

Concluding, Onuegbu, (1986) also observed that the FMBN loan are on long-term basis with adequate security and does not grant unsecured advances which other counterpart lending institutions extend to their customers. Customers often ask for a bridge-over advance to buy a house or a plot of land pending the sale of an existing one and use the proceeds to repay the loan. Such advances may be granted by Commercial Banks on the understanding that they will be repaid within a short time since Commercial Banks count on cash liquidity and quick lending turnover.

4.4 DATA PRESENTATION

This section presents data for analysis based on the tools for analysis as stated in chapter three of this research. The data used in this research were both primary and secondary data. But largely secondary data were used as evidenced from the tables.

These tables are obtained directly from FMBN Journal (Statistical tables) particularly the tables or figures used by the Research and Development Department. The researcher was even allowed in some cases direct use of both application and disbursement files (documents) to be further compared with the figures obtained or published by its magazine.

These figures were properly scrutinized and compared carefully before they were used in this research. The comparative data used in this research are for the period 1977 to 1994 (18 years). Most of the primary data used included direct investigative questions and interviews to largely the staff of Research and Development Unit of the FMBN (Head Office Lagos). The researcher exploited the advantage of personal knowledge of majority of the Head-office staff to approach for the direct interview and in some cases highly classified documents/files were made available to assist him in obtaining the actual figures.

Therefore, the data as presented on the tables showed the actual parameters that formed the pattern of lending policies. Since application, deposits/savings compared to disbursement are the only and only the parameters on which the lending policies were based. Hence, they were used and analyzed to form the basis of our concussion or opinion. Regression analysis became the only most convenient and reliable method employed to be able to form an opinion. Although, even without the regression, the bar chats clearly showed the pattern of the application and savings, particularly the savings. See appendices.

It can be observed that Commercial Banks operate saving and current accounts for customers and also engage in foreign exchange transactions.

In addition to granting loans for commercial ventures, commercial banks do considered grant mortgage loans to their customers. It is generally agreed however in the conventional banking world that the poor are of results from the fact that low income earners have little materials resources that could serve as collateral low savings (if any) unsteady and unsecured income.

Most banks are not interested in engaging in long-term investment. Banking is a life-long span about 60 years where regular maintenance is ensured. However, the fact that banks, traders or depositors money who are supposed to be paid on demand (except in case of fixed deposits) makes it necessary for them to ensure a reasonable cash liquidity at all times.

In order to boast housing delivery in the country many states embarked on creating and developing residential housing estates which are managed by housing corporations.

Like the FMBN, the housing corporation is faced with a lot of problems among which is finance. Some state governments are unable to finance the housing corporation hence the only option open for the corporation is to approach finance institutions for its funds. In situation where social rents are being paid by the occupants of existing houses, whose payments can safely cover cost of maintenance.

Some Other Sources of Finance Include:-

Mortgage loan;

i. Bridging loan finance;

ii. Sale lease back arrangement, Government

iii. Insurance companies and debenture stock.

These sources of finance are however must comically used in the contraction of big residential projects.

Building materials and components constitutes between 50% - 60% of the total cost of construction input. In consequence therefore, this sub-sector cannot be left to develop haphazardly. To stem the current indiscriminate importation of building materials, local capabilities and resources must be developed.

The upward trend in the cost of basic building materials began after the civil war and other major increased coincided with the Udoji arrears and during the last civilian administration. During these period, sharp rises were recorded for all categories of building materials. In more specific terms, the major causes of high construction cost can be identified as follows:-

i. Adoption of high space standard, cost specification
ii. Massive importation of building materials;
iii. Over prices contract cost inefficient development system aggravated by middlemen and high transport costs etc.

It is difficult to satisfactorily define the low income group. However, for the purpose of this study. The low income group has been defined as all wages earners and self employed people whose annual income is N5,000 or below as at 1988 or whose annual income is 20% or below the maximum annual income of the highest salary at any given level within the civil service structure at any given time which ever is higher. Census statistics indicate that about 70% of Nigeria's fall into this category.

While noting the interest of past government as the provision of houses for the Nigerian masses, the strategies adopted were of little benefits to the low income group. The direct construction of low income houses was a failure, the various loan shares do not adequate cater for the needs of the low income group. The machinery for the implementation of housing programs was in-efficient, the conception of housing need was narrow, the sincerely beyond some of the targets set were questionable, the moral housing problems were virtually neglected, and the various housing policy and programmes were introduced and implemented without adequate knowledge of the nature, scope and definition of the respective housing problems in the urban and rural areas.

Lack of adequate finance also constitute an important factor inhibiting the access of low income Nigerians to decent housing due to in particular the following:-

i. The inability to reliable quarters acceptable to the mortgage institutions;

ii. Their inability to afford the necessary down payment to equity;

iii. High rate of inflation;

iv. High rate of population growth and rapid urbanization;

v. Inadequate infrastructural facilities;

vi. Limited access to serve. Land difficulties in obtaining certificate of occupancy.

Both the formal and informal private sector have constantly been providing over 90% of the housing stock in this country. In view of the past and current contribution of the private sector and in order to substantially increase the nations housing stock, the sector needs to be mobilized, organized and motivated.

For this purpose, the private sector shall be defined to include all financial intermediaries (both banking and non-banking) industrial and manufacturing organisations as well as private individual investors.

Some factors which have militated against the effective participation of this sector or housing delivery based on the above data includes:-

i. Problem of land acquisition;

ii. Lack of access adequate housing finance;

iii. Difficulties in the operation of the land use Decree;

iv. Difficulties posed by the enforcement or non-enforcement of planning law and regulations;

v. Disincentive posed the rent control law and regulations;

vi. Excessive cost of building materials and;

vii. Scarcity of framed manpower in the building industry.

The NHF, though its merits may negate its elements it is worth mentioning some of the negative effects it will have on other industry in the economy, most especially the insurance industry.

Section 5 (2) of the newly promulgated NHF decree No.3 of 1992 stipulated that "every registered issuance company shall invest a minimum of 20% of its life funds on real property development at an interest rate not exceeding 4%.

It is not fair to impose this form of taxation on insurance companies for the following reasons:-

(i) Insurers pay the normal company tax which at the moment is 35% of profit;

(ii) Under this insurance special supervision fund decree No.20 of 1989 insurers are required to pay 1% of their grow premium to the misrules department of the Federal ministry and finance for the insurance industry. No other sector of the economy is taxation;

(iii) Under Decree 1991 section 66 of the insurer decree 1991 every insurers is required to contribute into a security fund out of which claims against insolvent companies will be paid and victims of hit and run motorist will be compensated.

(iv) The investment income of private administered pension funds are subject only to 15% with holding tax (which government intends to person funds invested with insurance companies is subject to 35% tax. This has led a considerable loss of person business by insurance companies;

(v) Insures are being made by government to pay other levies such as those being paid to reserve fund of Federally owned Nigerian Agricultural Insurance Company LTD, and the West African Insurance Institute Liberia, Monrovia (now located in Gambia).

These form of taxation on insurance company will have the following effects:-

(a) Over investment in property is dangerous to insurance apart from the dangers introits of market forces. What we are saying is that any such intervention must be coherent one, which takes due account of all competing interest. Those interest are not only interest of insurance policy holders but also of insurance company share-holders and employees as well as those of general public.

(b) The new policy is likely to discourage foreign investment in the Nigeria Insurance industry. Similar moves to direct investment on other countries e.g. New Zealand, Italy and Cameroun have failed. Within the European

Community, the latest business proposal for insurance forbid public deficit or promote housing.

(c) Insurance companies often sustain losses in their under-writing operations consequently they have to rely on investment income meant their claims liabilities. To require issuers to place a substantial percent of their funds with FMBN at on interest rate not more than 4% will erode the investment income of insurers thereby denying them of earning to meet claims payment. Other effects are imminent calliopes of the insurance industry.

4.5 DISCUSSION OF RESULTS

From the analysis of tables presented (Appendices), the trend of loan portfolio of FMBN can clearly be seen. Usually commercial bank grants short-term loan and attracts deposit accounts, which tend to serve as security for such short-term loans.

From the appendix I, it could be seen that in 1977 the amount of loan approved to that disbursement is very close with a percentage variance of less than 1 i.e. about 0.7%. Along the years the amount approved and disbursed begin to widen. This is principally due to lunch of loanable funds. This suggests that as more funds are made available to the FMBN, its loan portfolio will also significantly change. It is also of interest to note that the number of application received for FMBN loans increased during the period under review. That means that people are really interested in housing loans but the loans are not available.

From appendix II which presents the relationship between Savings and

Disbursement, it could be seen that FMBN loan policy is not based on the savings deposit with the bank. Although there is a level of enlargement in the savings with the bank but the loans are far higher than the amount deposited with the bank. That could not be treated as security in that the deposit at no time can cover the amount of loan. Therefore, the FMBN loan policy is quite unique and distinct not in all respect from that of other commercial banks this is seen from the operational system.

4.6 ANALYSIS OF RESULTS

In analyzing the data to obtain results for discussion in this research, the regression analysis of:

$$Y = 78536456 + 1.5172X_1 - 0.06917X_2$$

Relating it to $Y = a_0 + b_1X_1 + b_2X_2$

Y = Approval, a_0 = 78536456, b_1 = 1.5172, b_2 = 0.06917

X_1 = Disbursement and X_2 = Savings

The coefficient of determination is 0.905 i.e. 90.5% and coefficient of correlation is 0.9513 i.e. 95.13%. This shows a high positive association but not unity and should clearly be pointed out that the degree of correlation between variables measured by the product moment are positive. Correlation coefficient 'r' can take any value between –1 and +1, r = 1 when there is a perfect relationship between the variables. The correlation does not tell the cause of the relationship; it only shows whether the relationship exist or not. The trend has been upward and it is evident from the equation of Y. This is positive because the absolute value of the mortgage loans have been increasing over the years. FMBN has an upward trend in the supply of mortgage loans and advances since inception in 1977.

With 90.5% and 95.13% relationship, which is very close to 100%, it can be concluded that, the relationship is very positive. This agrees with a pilot study by Rufai Odebunmi (1988) which concludes "….mortgage loans have been increasing in the time series, are of the major factors responsible for this trend is the increase in savings and asset base, from the foregoing, recent government policies has affected the growth and expansion in the mortgage loans. It could be said that this study narrows its focus on the behavior of the four elements identified in mortgage processing these are the number of application for loans, approvals made, disbursement and the level of savings made by the applicants. Examining mortgage loans and advances as well as asset sizes for about eighteen years. The volume and trend of mortgage lending is influenced by level of economic activities, the general price level and the mortgage interest rate. Other factors are expected to influence mortgage lending, even if only indirectly. This and other government credit regulations will influence both volume and the trend of mortgage lending.

Also from the bar charts in the appendices, considering appendix 4 showing the relationship between approval and disbursement, it can be seen clearly that the approvals are higher than the disbursements except that of 1979 which has a variance of ₦ -17, 809, 556. Which is a clear indication that there are no enough funds for disbursement because the money was spent indiscriminately due to political, ethnic, religious and other problems.

As in the case of appendix 4, appendix 5 which shows the relationship between savings and disbursement is entirely a different phenomenon, i.e. the disbursements are very much higher than the savings which is not suppose to be the case and this leads to liquidity problem. Only 1983 have its savings more than the disbursement. Normally, in any loan portfolio management, savings are naturally a determinant of loan approval. That is, the total net savings are the basic consideration for loan application and approval. In other words, before any loan shall be granted, the applicant's net savings should and must be taken into consideration.

But Mortgage Bank loan policy does not take the savings much seriously before loan application is considered, particularly as it is a social loan. Therefore, other factors such as acquisition of land and fulfillment of basic requirements such as opening of accounts, evidence of income e.t.c. if fulfilled, the savings part of the requirement is waived and loan granted on the basis of other non collateral considerations.

Conclusively, we can at this juncture say that mortgage bank loan policy are not based on normal commercial bank policy where loans are attached to savings.

CHAPTER FIVE: SUMMARY CONCLUSSION AND RECOMMENDATION

5.1 SUMMARY

The FMBN was established by the Federal Government in 1977 as a successor to the Nigerian Building Society (NBS). The initial capital base of the bank was ₦20million and bay 1980 has enlarged to ₦50million. This was a deliberate policy to expand mortgage lending in the economy. It is managed by a government appointed Board Directors who formulate and regulate the operation of the bank in accordance with the decree establishing it.

FMBN is the apex mortgage institution in the country. In broad terms, mortgage functions are performed by the bank and regulated by Decree that establish it as a government agency. The principal function of the bank as spelt out in the Act which set it up are as follows:

1. The provision of long term credit facilities to mortgage institution, commercial property developers and individuals; the encouragement and supervision of mortgage institutions at state and national levels;
2. Mobilize deposits and issue securities;
3. Invest in companies engaged in the manufacture of building material;
4. Furnish technical assistance and other services to sectional institutions.
5. Provide guarantees for sectional lending.
6. To carry out research aimed at improving housing pattern as well as on mortgage financial activities and the building construction industry in the country and

collaborate with reputable insurance companies to organize and operate a mortgage protection system.

In addition to these duties, the bank has been compelled to take additional responsibility in the pursuance of the Federal Government Housing Programme as in World Bank Assisted Urban Development Programme, the Federal Government Low-cost Housing Programme and the Federal Government Staff Housing Loan Scheme.
From the above definition and functions of the bank, one can easily see that a mortgage bank is expected to provide greater access to housing finance to individuals, institutions and corporations at relatively cheaper costs to those provided by the commercial or merchant bank.

The problems of implementation of the housing policy shall be examined.
The share capital of FMBN is completely owned by the Federal Government and CBN. The present level and structure are too restructure and consequently limits leverage. This constraints was extensively analyses in a paper by (Osanwonyi 1984) that considering the unfavourable economic condition we are presently in the government cannot be expected to increase its equity shares nor provide loan capital and the relevant institutions are yet to establish the process required for FMBN to gain access into the capital market the overall consequence is a significant financial handicap on the operation of FMBN.
The loans of banks are of a long term maturity period since 15 years is the minimum stipulated by government monetary policy for residential housing. Because the banks is operating a fixed interest rate (given the National monetary framework) with an

economy with double digit inflation rates it has been subjected to capital losses.

The banks residential term loan are operated in a market dominated by source of fund which have relatively shorter period making it difficult to service its loans application and commitments. For example, the current interest rates on residential loan is over 17%, the same as a saving which are in the shorter terms.

The nature of FMBN operation and the state of the economy dictate the short term deposit which must be used to financed long-term loans. To do this profitably the practice of finance dictates the application of interest rate intermediation. The application of this method with less variable rate approach is not possible given the structure of the national monetary policy. Morever, the harmonisation of interest rate in the country by the CBN has reduces the competition edge which the depressed economy and surfeit decline in frequent defecates have prevented loans from being turned over as optimally planned.

Primary mortgage institutions which are to perform retail mortgage lending are to operate within the frame work of the mortgage which require housing the decree has not only destested FMBN of all forms of retail lending but has also expended the banks roles from wholesale mortgage financing and include quranteeing to loan stocks floated by the primary institution, as well as the licencing and effective supervision and monitoring of mortgage lending operation. This in essence means more responsibility. But the FMBN as it is presently constituted, lack the experience capacity to cope with expand responsibility in particular, when governments intentions is to privatise 70% of the FMBN, if eventually realised, it would be difficult to reconcile the bank role as a substantially privately owned bank with its role as a regulatory body for other housing finance institutions. The land use act decree of 1989 posses another problems for the proffer implementation of this policy. The present Federal Military Government is expected to owned this land act decree before it hand over power to the civilian administration in 1983. This is to remove the constraints and making land available to efficient housing delivery.

The lack of cadastral and topographical maps as well as promoting land use planning development control and settlement policy also act as impediment to this housing policy implementation. The upward trend in the cost of basic building materials is also a major problem. This began after civil war and other major increased in cost conceded with the Udoji award the mismanagement of the economy during the last civilian administration.

Another problem that might act as a hitch to the implementation of this policy is that of the actual population of this country. Where the figure submitted by the NPC is very questionable one then begins to wonder how e can determine the housing requirement of a country whose population is not ascertain. An argument in favour of the population issue maintain above can be found be in words of "Clarks" in his paper presented during the National Seminar on formulation of shelter strategies 1994 he assumed a 5% urban growth rate and based on that assumption he estimated the urban population of Nigeria to be presently 20 million and by the turn of century near 60 million and consequently 6 million new housing units would be required between 1980 and the year 2000 A.D. He went further to the considering the effects the oil boom which induce a 6% urban growth rate, rapid increase in the Nos. of household per dwelling person per room index or more acceptable estimate of urban population. This indicate that by the year 2000 A.D about 15 million new housing units will be required. Going by this population the provision of 8 million housing units as against estimated 15 million housing units by the year 2000 A.D. may not meet the requirement of the Nigerian populance.

5.2 CONCLUSION

It must be emphasized that the FMBN grants loans on long term basis with adequate collateral security and does not grant unsecured advances which commercial banks extend to their customers for day-to-day working capital requirements, customers often ask for a bridge-over advance to buy a house or plot of land pending the sale of an existing one and to use the proceeds to repay the loan, such advances may be granted by commercial banks on the understanding that they will be repaid within a short time since commercial banks count on cash liquidity and quick lending turnover.

Recently, there has been high-level competition among banks including owner-occupier houses. In pursuance of the Federal Government Housing Programmes, the FMBN undertakes the responsibilities of executing the World Bank Assisted Urban development Programme in Nigeria.

Financial and technical assistance from the World Bank to the Nigerian States Urban Development Programme (NSUDP) are channeled through the FMBN to assist the states in the implementation of effective housing programme for low income workers.

The above review of the present system of housing finance in Nigeria has clearly revealed the severely underdeveloped nature of housing finance institutions. There is therefore an urgent need to create a vigorous and effective housing system for the country.

Accordingly, a two (2) tier finance structure, with the FMBN as an institution and decentralised network of building societies, housing Corporations, co-operative housing associations, credit unions and saving banks forming the second (2nd) tier at the grassroots level shall be established. Within this structure, the FMBN shall concentrate on wholesale mortgage financing to primary mortgage institutions (PMI) who now in turn shall perform detailed mortgage lending. The FMBN shall also guarantee loans stocks floated by the primary mortgage institution Decree No. 53, 1989 now in force shall facilitate the establishment and regulation of the operation of primary mortgage institutions as well as ensure that the FMBN as an apex institution divests itself of all its mortgage loan portfolio.

The non-equity sources of funding to the bank are Federal Government and Central Bank's loans, debenture stock, deposit, mortgage loan repayments, and World Bank loan. It is expected that insurance companies will be made to deposit their surplus funds with the FMBN; this will now form additional income for the bank.

5.3 RECOMMENDATIONS

In general, the ability of mortgage loans will depend on savings by private individuals and business enterprises; government grants and fund made available by repayment of existing loans. The importance of mortgage financing to any particular institution depends upon the institution's position in the saving and lending structure as well as upon its own individual portfolio policy. The portfolio policy in turn is determined by law, traditions and by its management. However, the share of the total assets each category of institutions (commercial, merchant banks and FMBN) holds in mortgages would serve as an indicator both of the importance of mortgages to the category of institution and of the probability that any given institution within the category will be active in the mortgage market.

Good planning and institutional reforms to utilize domestic resources more efficiently are important to the housing sector, which must often compete with other sector such as agriculture and industry receiving higher priority from the Federal Government. The possibility of including net real saving mobilization through the encouragement of home ownership may be an additional reason for encouraging the growth of housing finance system though it remains an unsettled issue among economists. It is true that, at any given time, aggregate financing savings are fixed and that encouraging housing finance will mostly lead to shifting resources from other sectors to housing. But it is clear that where the housing finance system is largely dependent on government patronage and any shift of sectorial priorities could create serious distortion within the system.

From the analysis so far it is obvious the housing sector has been neglected by the past administration due to these factors and considering the fact that shelter is universally accepted as second most important essential human need after food it is view of this that, the Federal Military Government introduced the New National Housing Policy Fund Decree No. 3 of 1972.

The ultimate goal of the National Housing Policy should be to ensure that all Nigerians own or have access to decent housing accommodation at affordable cost by the year 2000 AD.

In order to achieve this goals the Government must pursue the following policy objectives:

A. Encourage and promote active participation in housing delivery by all tiers of Government.

B. Strength institutions within the system to render their operation more responsive to demand.

C. Emphasis housing investments which satisfy basic needs.

D. Encourage greater participation by the private sector in housing development.

To accomplish these objectives the following strategies will be pursued:

i. Establish appropriate institutional framework to facilitate effective planning housing development, restructure all existing public institution involved in housing delivery at the Federal and State Government level with a view to making them more effective and responsive to needs of Nigerians and reviewing the existing law and regulation such as land use Decree, planning law etc in order to facilitate housing delivery at the same time improving the finances and strengthened the executive capacity of local Government to enable them contribute more effectively in housing delivery, subsequently mobilizing the private sector participation in provision of housing.

ii. Produced adequate cadastrial and topographical needs to facilitate land used planning and administration and also producing and updating regional

(F) Develop a policy on resources mobilization through the issue of bonds for housing finance, which will serve as veritable mechanism especially if the monetary authority could permit the eligibility of the bonds for the Liquidity Ratio requirements of major financial institutions.

(G) Initiate compulsory institutional savings scheme. This could be in the form of special taxation on profits of commercial and merchant banks and other viable organizations could be a source of fund mobilization for housing. Although compulsory savings may have an impact similar to that of additional taxes since they reduce the disposable incomes; and because they might have to be treated as tax-deductible, the net effect could be a reduced net generation of taxes accruing to government.

(H) Increase the primary mortgage institutions throughout the country by way of encouraging states establishing them with minimal share capital, and mandate the state government to provide the needed share capital.

(I) Expand resource mobilization for the mortgage institution by deepening the areas of initiatives. (i.e. encouraging or calling the Local Government to buy shares in the primary mortgage institutions).

(J) Make facilities available for home ownership especially for the low-income group, particularly making land acquisition conditions flexible to allow low-income group to acquire and own land or plots for possible shelter development.

(K) Bring down the lending rates considering the present salary scale across the board in the country, which is by far below the inflationary trend, to enable average affordability for both high and low an income earner.

5.5 SUGGESTED AREAS FOR FURTHER RESEARCH

Providing housing finance services to every facet of the population is a task of the moment. Whatever the tenure the housing finance service must be considered from the viewpoint not only the borrower but also of the end-consumer of the services. Current indications are for a static if not deterioration in the purchasing power of the lower income group, especially those for whom the housing problem is most acute. Meeting this demand requires a sound policy, within the financing mechanism, which will discriminate in favour of all income groups: aiming preferably more at equilibrium of misery than a redistribution of wealth.

From the foregoing, the research on the areas not covered include:

(a) The recent areas of the government policies such as the impact on the National Housing Fund and mortgage financing.

(b) The government pronouncement on housing and its impact in the new millenium.

(c) The use of graduated payment mortgage and the variable rate mortgage in mortgage financing.

Analysis of this and other areas will lend more facts to the problems of mortgage financing in Nigeria.

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APPENDIX 1

FMBN LOAN APPROVAL AND DISBURSEMENT (1977 - 1994)

YEAR	APPROVAL (₦)	DISBURSEMENT (₦)	VARIANCE (₦)	PERCENTAGE (%)
1977	19,941,560	19,802,902.00	138,658.00	0.70
1978	57,015,731	20,194,531.00	36,821,200.00	64.58
1979	26,206,428	44,075,984.00	(17,869,556.00)	(68.19)
1980	92,982,116	63,193,323.00	29,788,793.00	32.04
1981	125,080,404	75,307,484.00	49,772,920.00	39.79
1982	65,339,974	50,981,096.00	14,358,878.00	21.98
1983	87,599,844	58,102,585.00	29,497,259.00	33.67
1984	329,688,870	178,003,819	151,685,051.00	46.01
1985	375,573,982	75,114,796	300,459,186.00	80.00
1986	549,068,147	137,267,037	411,801,110.00	75.00
1987	535,986,442	420,107,818	115,878,624.00	21.62
1988	627,109,980	138,521,867	488,588,113.00	77.91
1989	718,463,305	241,978,441	476,484,864.00	66.32
1990	975,288,430	324,088,345	651,200,085.00	66.77
1991	892,943,435	308,511,957	584,431,478.00	65.45
1992	995,782,016	429,978,675	565,803,341.00	56.82
1993	1,671,889,592	885,432,728	786,456,864.00	47.04
1994	1,685,726,610	781,840,002	903,886,608.00	53.62

SOURCE: Research & Development Department, FMBN, Lagos

APPENDIX 2

FMBN SAVINGS AND DISBURSEMENT (1977 - 1994)

YEAR	SAVINGS (₦)	DISBURSEMENT (₦)	VARIANCE (₦)	PERCENTAGE OF DISBURSEMENT TO SAVINGS (%)
1977	14,365,385	19,802,902	(5,437,517)	(37.85)
1978	14,494,889	20,194,531	(5,699,642)	(39.32)
1979	15,830,684	44,075,984	(28,245,300)	(178.42)
1980	18,958,795	63,913,323	(44,954,528)	(237.12)
1981	36,160,443	75,307,484	(39,147,041)	(108.26)
1982	41,324,289	50,981,096	(9,656,807)	(23.37)
1983	60,083,435	58,102,585	1,980,850	3.30
1984	105,022,253	178,003,819	(72,981,566)	(69.49)
1985	63,472,002	75,114,796	(11,642,794)	(18.34)
1986	33,712,877	137,267,037	(103,554,160)	(307.17)
1987	184,593,375	420,107,818	(235,514,443)	(127.59)
1988	109,972,510	138,521,867	(28,549,357)	(25.96)
1989	160,480,102	241,978,441	(81,498,339)	(50.78)
1990	216,393,788	324,088,345	(107,694,557)	(49.77)
1991	263,623,467	308,511,957	(44,888,490)	(17.03)
1992	416,305,353	429,978,675	(13,673,322)	(3.28)
1993	327,610,109	885,432,728	(557,822,619)	(170.27)
1994	760,886,690	781,840,002	(20,953,312)	(2.75)

SOURCE: Research & Development Department, FMBN, Lagos

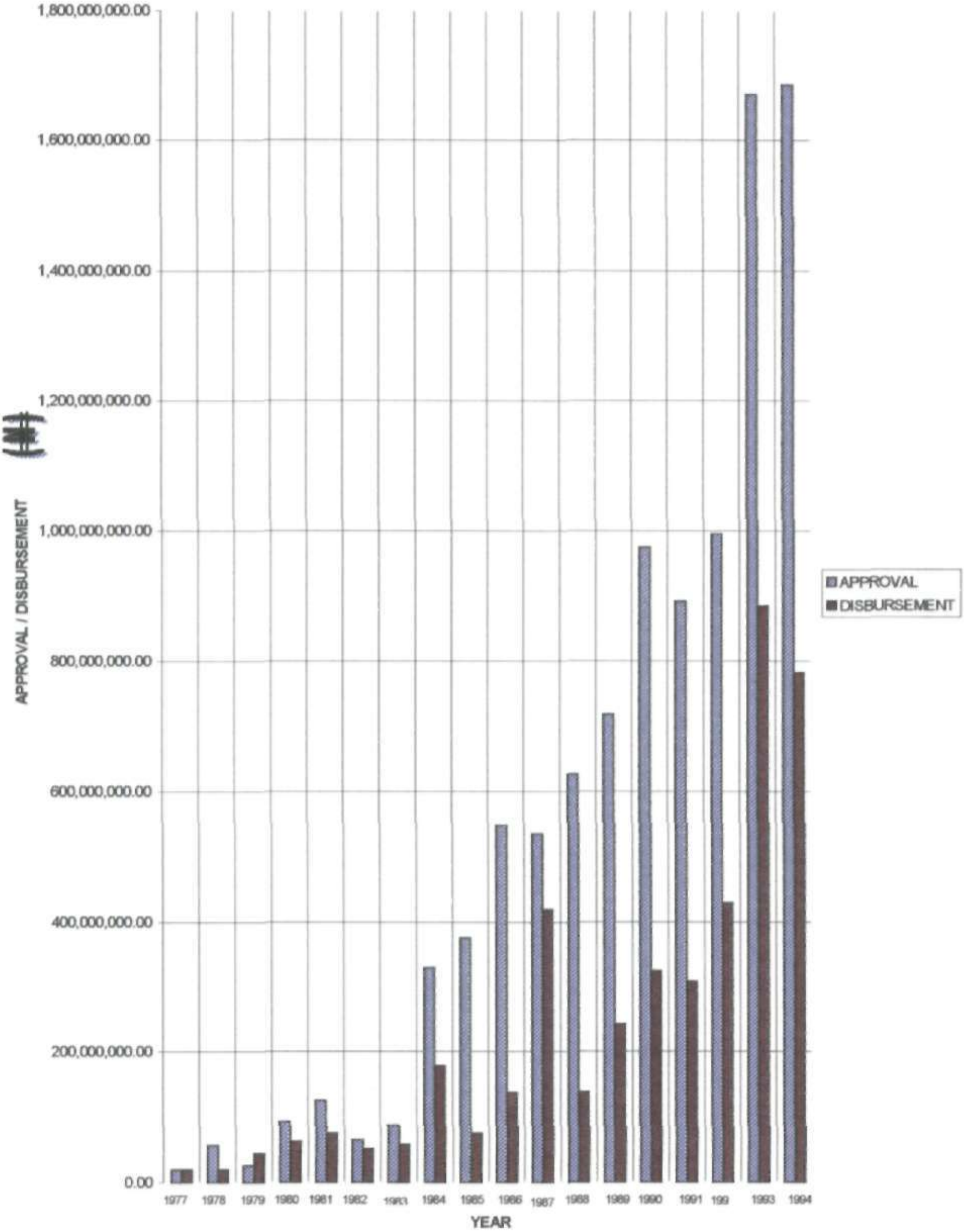
APPENDIX 3

SUMMARY OF FMBN TOTAL NET SAVINGS (1977 - 1994)

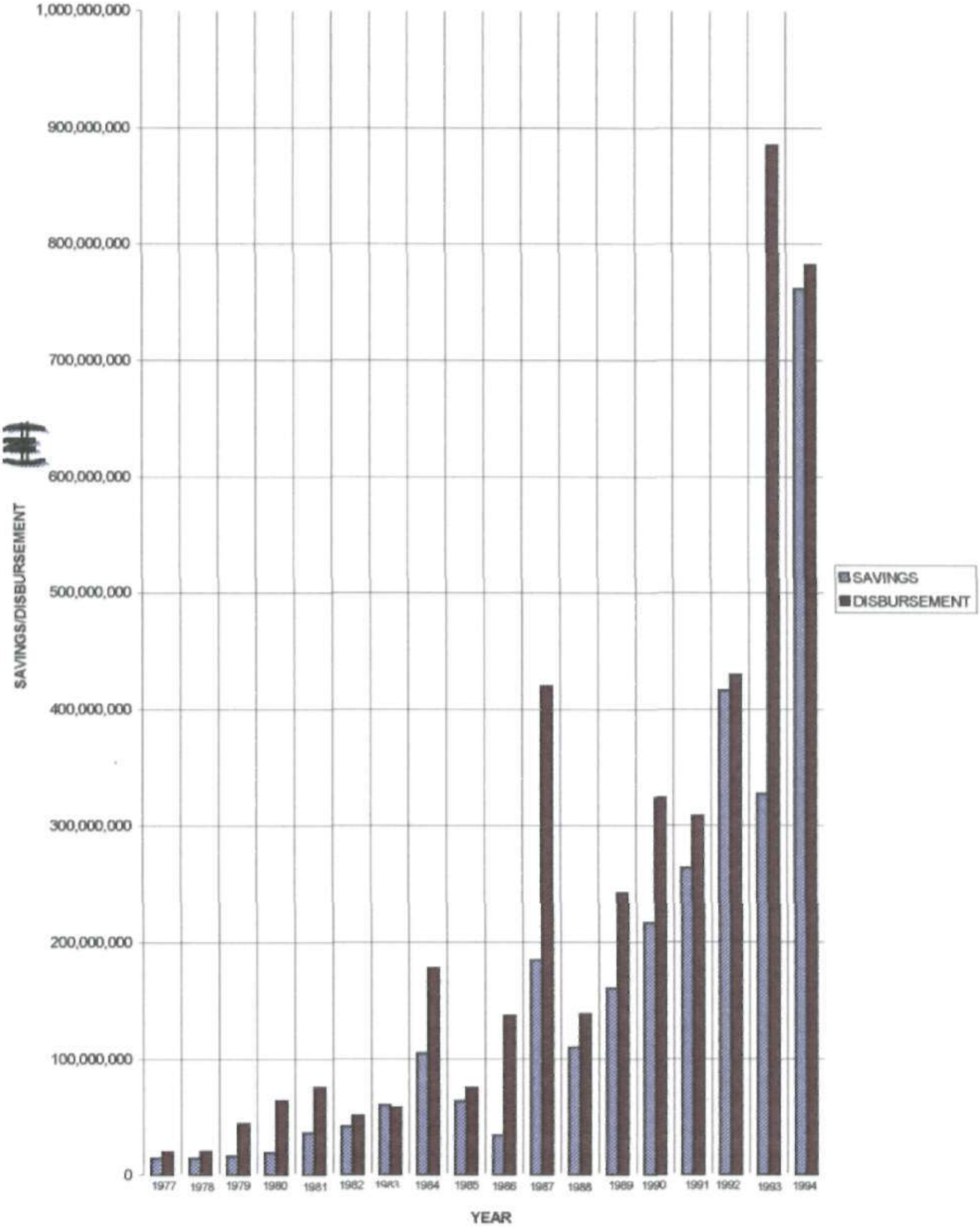
YEAR	TYPES OF ACCOUNT (₦)				TOTAL NET SAVINGS (₦)
	POPULAR	TARGET	TERM	CHILDREN	
1977	10,602,372	1,776,317	1,986,696	879,654	15,245,039
1978	10,834,475	1,982,196	2,133,218	734,966	15,684,855
1979	11,537,943	2,175,638	2,117,103	659,354	16,490,038
1980	33,891,427	5,729,709	5,507,102	785,974	45,914,212
1981	32,061,028	4,632,549	4,600,349	30,363	41,324,289
1982	47,311,443	6,314,654	6,048,847	408,491	60,083,435
1983	16,924,091	1,210,493	2,041,273	1,225,126	21,400,983
1984	12,677,277	794,320	1,118,122	754,402	15,344,121
1985	1,550,403	675,319	1,946,255	412,782	4,584,759
1986	1,105,562	463,260	1,306,600	676,632	3,552,054
1987	1,026,447	447,594,	866,647	721,161	2,614,255
1988	11,102,921	8,876,982	985,992	892,786	21,858,681
1989	10,021,543	7,894,901	2,019,665	982,789	20,918,898
1990	22,893,095	10,672,019	1,679,054	892,378	36,136,546
1991	23,546,876	11,901,874	1,190,256	996,207	37,635,213
1992	17,564,273	22,885,983	2,678,947	979,785	44,108,988
1993	18,982,356	2,901,773	2,567,983	907,893	25,360,005
1994	16,657,387	12,804,222	3,783,991	895,905	34,141,505

SOURCE: Research & Development Department, FMBN, Lagos

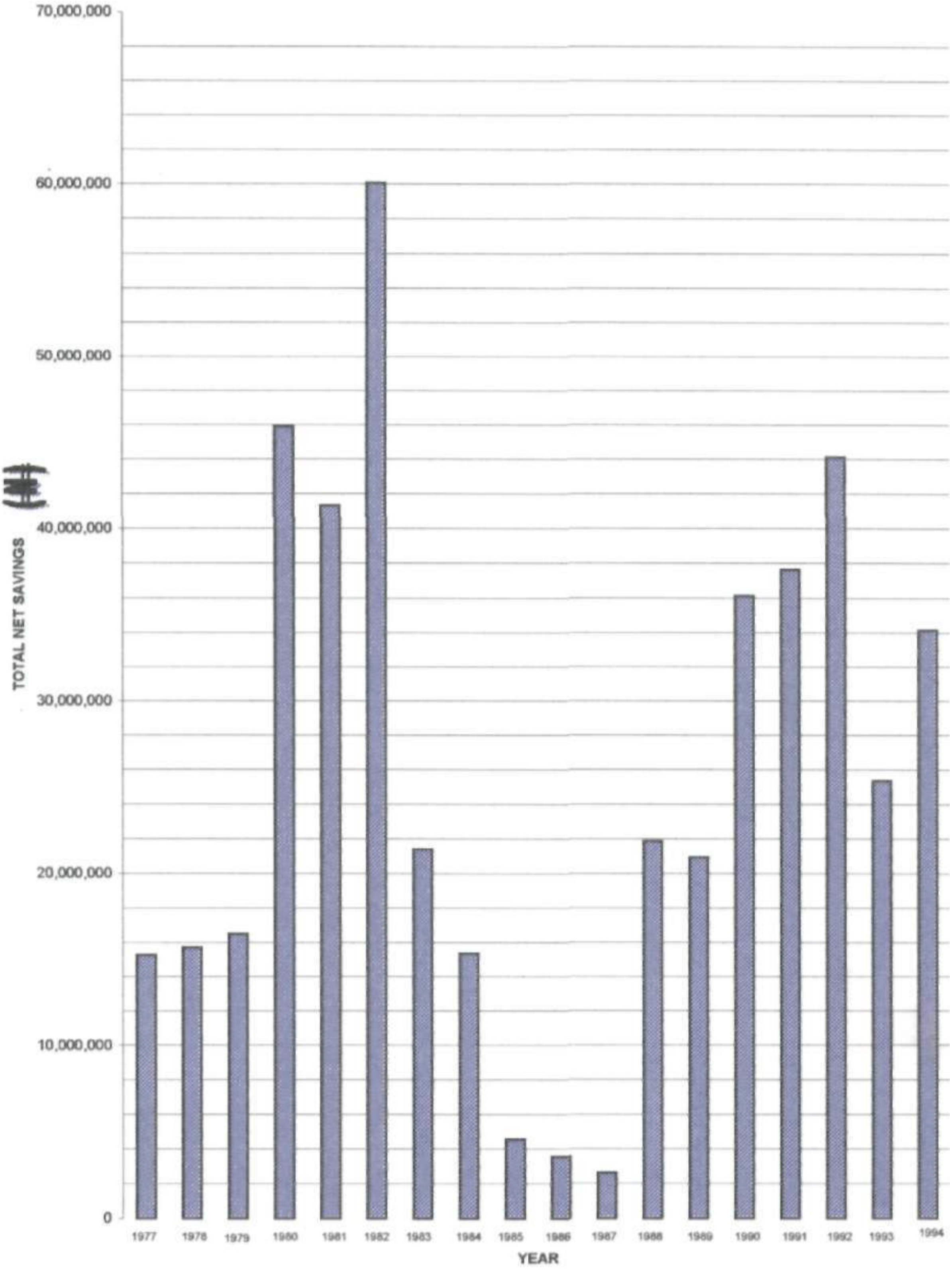
APPENDIX 4: BAR CHART SHOWING THE RELATIONSHIP BETWEEN APPROVAL AND DISBURSEMENT(1977-1994)



APPENDIX 5: BAR CHART SHOWING THE RELATIONSHIP BETWEEN SAVINGS AND DISBURSEMENT (1977-1994)



APPENDIX 6: BAR CHART SHOWING THE SUMMARY OF FMBN TOTAL NET SAVINGS (1977-1994)



APPENDIX 7

MATHEMATICAL PROCESSES INVOLVED IN OBTAINING MULTIPLE REGRESSION EQUATION

Given a table say:

Ages of pupils	No. of questions correct	No. of questions wrong
11	18	24
12	19	32
13	23	28
14	26	33
15	25	31
16	31	32

The table can be re-written as :

Ages of pupils Y	No. of questions correct X_1	No. of questions wrong X_2	X_1Y	X_2Y	X_1X_2	$(X_1)^2$	$(X_2)^2$	Y^2
11	18	24	198	264	432	324	576	121
12	19	32	228	384	608	361	1024	144
13	23	28	299	364	644	529	784	169
14	26	33	364	462	858	676	1089	196
15	25	31	375	465	775	625	961	225
16	31	32	496	512	992	961	1024	256

n = 6; $\sum Y = 65$; $\sum X_1 = 142$; $\sum X_2 = 180$; $\sum X_1 Y = 1960$; $\sum X_2 Y =$

2451 $\sum X_1 X_2 = 4309$; $\sum (X_1)^2 = 3476$; $\sum (X_2)^2 = 5458$; $\sum Y^2 = 1111$;

$\overline{Y} = \frac{\sum Y}{n} = 10.83333$; $\overline{X_1} = \frac{\sum X_1}{n} = 23.68$; $\overline{X_2} = \frac{\sum X_2}{n} = 30$

We have the Normal Equation relating to $Y = a_0 + b_1 X_1 + b_2 X_2$ as shown below:

$$\sum Y = na + b_1 \sum X_1 + b_2 \sum X_2 \qquad (1)$$

$$\sum X_1 Y = a \sum X_1 + b_1 \sum X_1^2 + b_2 \sum X_1 X_2 \qquad (2)$$

$$\sum X_2 Y = a \sum X_2 + b_1 \sum X_1 X_2 + b_2 \sum X_2^2 \qquad (3)$$

Substituting the data obtained above into equations 1-3, we have

$$65 = 6a + 142b_1 + 180b_2 \qquad (1)$$
$$1960 = 142a + 3476b_1 + 4309b_2 \qquad (2)$$
$$2451 = 180a + 4309b_1 + 5458b_2 \qquad (3)$$

We now solve the three equations simultaneously using Cramer's method

Coefficient matrix A= $\begin{vmatrix} 6 & 142 & 180 \\ 142 & 3476 & 4309 \\ 180 & 4309 & 5458 \end{vmatrix} = \begin{matrix} 65 \\ 1960 \\ 2451 \end{matrix}$

Det A= D=(6*(3476*5458-4309*4309))-(142*(142*5458-180*4309))+(180*(142*5458-180*4309))

D_x=(65*(3476*5458-4309*4309))-(142*(1960*5458-2451*4309))+(180*(1960*5458-2451*4309))

D_y=(6*(1960*5458-2451*4309))-(65*(142*5458-180*4309))+(180*(142*2451-180*1960))

D_z=(6*(3476*2451-4309*1960))-(142*(142*2451-180*1960))+(65*(142*4309-180*3476))

$a = D_x/D$, $b_1 = D_y/D$, $b_2 = D_z/D$

The numerical values obtained for a, b_1 and b_2 will now be substituted into equations 1-3 and then Calculus will be applied to obtain the equation:

$$Y = 12367 + 2.126X_1 + 1.437X_2$$

APPENDIX 8

QUESTIONAIRE

The questionnaire has been designed for the programme of gathering information for a research programme titled "Evaluation of lending policies of Federal Mortgage Bank of Nigeria (FMBN) " a case study of New National Housing Policy by the year 2000 and its implementation. The questionnaire focuses on the role of FMBN towards the attainment of this desirable objective.

Your answer will help in determining how effectively FMBN should go about the implementation of this study.

Your cooperation will be highly appreciated and the information given will be confidentially treated.

Thank you.

1. What is your occupation? State briefly: ______________________________

____

2. What is your annual income? State briefly: ___________________________

3. Are you aware of FMBN services? Yes ☐ No ☐

4. Do you support FMBN Lending Policies? Yes ☐ No ☐

5. What aspect do you want amendment? State briefly: ___________________

____

6. Suggest your amendment briefly: ___________________________________

____

____

7. How feasible do you see the possibility of owning house(s) with these policies? State briefly: ____

____

8. Does the Housing Fund Decree No. 2 of 1992 where workers in public and private sectors should contribute 2.5% of their monthly income workable as to achieving these objectives? Yes ☐ No ☐

9. Briefly state reasons why it is workable: _____________________________

____

____

10. Can you afford to part with 2.5% of your monthly income? Yes ☐ No ☐

11. Have you any deposits with any Financial Housing Institution? Yes ☐ No ☐

12. Can you estimate how much it may cost to build / buy a comfortable apartment for a family of three (3)? State briefly: _______________________

____

____

13. One of the conditions of getting loan(s) is to have certificate of occupancy of a plot of land. Do you think this condition is too stiff? Yes ☐ No ☐

14. If no state your reason(s) ______________________________

____

____

15. What role do you expect Commercial Banks and other institutions to play towards the realization of FMBN's objectives? State briefly: ______________

____

____

16. What other suggestions can you advocate for the efficient smooth running of FMBN's policies? State briefly: ______________________________

____

____

17. What in your view, do you think will assist government in providing housing for all in not too distant time? State briefly: ______________________________

____

____

____

____