AN ASSESSMENT OF ACCESS TO FINANCE FOR HOUSING DEVELOPMENT IN ZARIA URBAN AREA

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AUGUST, 2012

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MSC URBAN MANAGEMENT, DEPARTMENT OF URBAN AND REGIONAL PLANNING, AHMADU BELLO UNIVERSITY, ZARIA

AUGUST, 2012

DECLARATION

I hereby declare that this thesis titled, ASSESSMENT OF ACCESS TO FINANCE FOR HOUSING DEVELOPMENT IN ZARIA URBAN AREA. This work was carried out by me and no part of this thesis has been presented for another degree at any institution. All sources of information used are duly acknowledged by means of references.

Meshubi, O. A. ……..

Date

CERTIFICATION

This thesis titled ASSESSMENT OF ACCESS TO FINANCE FOR HOUSING DEVELOPMENT IN ZARIA URBAN AREA by Meshubi Oladipo Adekunle meets the regulations governing the award of the degree of Master of Science in Urban Management, of Ahmadu Bello University and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This work is dedicated to the glory and honour of the Almighty God

ACKNOWLEDGEMENT

My thanks go to the Almighty God for His grace that assisted me at each stage of this work. I will forever be grateful to Him.

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ABSTRACT

The need to assess the various variables towards individuals housing construction as well as their sources of funding is imperative. Thus, the impact of finance through the granting of loans and funding to individuals to encourage housing development as well as urban development cannot be overemphasized. The study examines access to finance for housing development in Zaria urban area. It assesses the challenges of source of finance for housing development. The study utilizes clustered and random methods of sampling to select the neighbourhoods, households and the institutions for data collection. The data collected through the structured instrument was subjected to descriptive and statistical analysis. The study reveals that mortgage finance is not a major source of finance for housing development and that the majority of the respondents are not significantly aware of mortgage finance as a source of funds for housing development. It was also observed that informal source is the major source of finance for the low-income earner and that the level of access to finance for housing development is very low. It further shows that funds obtained from cooperatives societies for housing development are often insufficient. The study recommends that public awareness should be embarked upon for mortgage finance and the stringent conditions required for housing loan should be reviewed. Also, the integration of the formal and informal mechanisms for effective access to finance is inevitable.

Key Words: housing, housing finance, mortgage, cooperative societies, NHTF, Zaria urban area.

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CHAPTER ONE

BACKGROUND TO THE STUDY

1.1 INTRODUCTION

Housing problem is a global phenomenon confronting developed and developing, rich and poor nations Agbola (2007). Habitat (1990) emphasizes that in all countries, regardless of the average standard of living, there is a large section of the population that cannot afford what could be regarded as an adequate standard of housing. As a result, a substantial part of the population has to live in accommodation that is severally substandard, shanty towns, and slums. Many reknowned scholars of urban science (Castells, Burgess, Hall, Turner, Abu-Lughod, Mabogunje and so on) as well as distinguished regional and international organization (United Nations Habitat, World Society of Ekistics, the World Bank etc.) concerned with urbanisation and housing at global levels, have long expressed immense anxieties over the alarming nature and dimensions of the housing problems in the nations of the developing world. Highly recognized among the most crucial corollaries of unplanned and dependant urbanisation is the urban housing crisis pervading the primary and large regional secondary cities of the fast and medium developing categories of the third world nations (Lagos, Rio de Janeiro, Sao Paolo, Mexico City, Cairo, New Delhi, Karachi etc.). This crisis situation in its integrated form has surpassed the terrains of the social sphere, reproducing itself in the economic, political and environmental processes of these nations of the third world, Nigeria not an exemption. Thus, owing to rapid population growth, low economic capacity of most urban households, inadequacy of public resources, and a general

increase in the cost of building, acute housing and environmental conditions abound in urban centres.

The housing sector plays a more critical role in a country's welfare than is always recognized, as it directly affects not only the well-being of the citizenry, but also the performance of other sectors of the economy. Adequate housing provision has since the early 1970s consequently engaged the attention of most countries, especially the developing ones, for a number of reasons. First it is one of the three most important basic needs of mankind the others being food and clothing. Second, housing is a very important durable consumer item, which impacts positively on productivity, as decent housing significantly increases workers' health and well being, and consequently, growth. Third, it is one of the indices for measuring the standard of living of people across societies. Provision of houses for urban dwellers is a major challenge in developing countries, especially in sub-saharan African. Among the many factors influencing housing provision in developing countries, finance is the most important. Adequate finance is therefore the first requirement for successful and effective housing delivery in any nation. This is because at every stage of construction money is needed to lease land, prepare plans and to hire labour as well as to purchase the various materials and infrastructure to be installed in the houses. The importance of housing finance in housing delivery is stressed by Agbola (1998), who asserted that "without well organized and efficient housing finance mechanism, the goal of housing development policy will be largely unattainable". The issue of adequate finance is therefore central to adequate housing supply in all nations of the world.

Realizing that the continuous flow of fund was the main factor impeding housing financing in Nigeria, the federal government enacted the 1992 National Housing Fund(now National Housing Trust Fund) which made it mandatory for certain categories of workers to contribute some percentage of their income to the fund. The NHTF is one of the key strategies towards the achievement of the National Housing Policy 1991(revised in 2001, 2006 and 2011). But, it is arguable if the mandate for establishing the agency has been satisfactorily performed.

1.2 STATEMENT OF RESEARCH PROBLEM

Housing finance by its very nature is a capital intensive venture which if it is to be financed through personal source will require slow and tedious accumulation of savings. In order to deal with these problems, government has pursued a range of successive programmes and policies. One of such programmes as contained in the National Housing Policy (2006) is providing fund for housing development through housing and mortgage finance institutions. Long term credit facility for home acquisition is supposed to come from two sources; one being the National Housing Trust Fund (NHTF) and the second being the private financial institutions. The NHTF operates on a depository arrangement whereby civil servants and self employed persons contribute 2.5% of their monthly income into the fund through their employers or directly to the federal mortgage Bank of Nigeria in order to access the loan. The concept is to ensure continuous flow of long term fund for housing development and to provide affordable loan for housing.

Different studies have been conducted on the sources of finance for housing development in Nigeria. Such studies by Onibokun, (1985), Falegan (1985), Kumuyi and Onibokun(1990), Agbola (1998), Omirin(1998) Fasakin (1998), William (2002); Jaiyeoba and Amole (2002), Olusola, Aina and Ata (2002) Oduwaye et al (2008), Nubi

(2006) focused more on the structure and operational framework of the housing finance institutions without much information on the level of access to finance for housing development. From observation, the number of Nigerians that have registered for the National Housing Trust Fund (NHTF) is low. According to Sanusi (2003), there is evidence of declining activities in housing finance generally and there are 9million workers who are to be registered and therefore not making contribution. But despite this decline, housing developments are being embarked upon by Nigerians. Recently in Zaria, there is an upsurge in the number of residential layouts and new developments across residential neighbourhoods of Hanwa new extension, Zango new extension, Kabama residential layout, Hayin Danyaro, the new settlement behind Nigeria College of Aviation Technology, (Zaria Graceland), Gabari residential layout and Juchi waje. There is little information on the contribution of housing finance institutions to housing development in this town. The performance of the various housing finance institutions cannot be adequately measured if the issue of accessibility to finance by the people is not determined. It is this issue that the study seeks to investigate in Zaria Urban area.

The study therefore, sets out to answer the following questions:

1. What are the sources of fund for housing development in Zaria urban area?
2. How are people accessing fund for housing development in Zaria urban area?
3. What are the challenges associated with accessing fund for housing development in Zaria urban area?

1.3 AIM AND OBJECTIVES

1.3.1 AIM

The aim of this research is to assess access to finance for housing development in Zaria urban area.

1.3.2 OBJECTIVES

1. To review the concept of housing finance and the implication for housing development.
2. To examine sources and access to finance for housing development in Zaria urban area.
3. To examine the challenges to accessing housing finance for housing development in Zaria urban area.
4. To make workable recommendations for sustainable housing finance in Zaria urban area.

1.4 SIGNIFICANCE OF THE STUDY.

The study is significant in many respects. It is hoped that this study will contribute to the process of developing a better housing finance strategy that will be more accessible to all Nigerians. The study aspire to meanifully contributes towards a better understanding of how fund for housing development is being accessed in Zaria urban area. This will lead to a more accurate result of the rate at which housing finance and mortgage is being accessed. Furthermore, it will contribute to the growing debate of making housing policy more responsible to the housing affordability of the people. The study will also contribute towards improving the current shortage of data on the level of access to housing finance and mortgage in Nigeria which will be useful to policy makers and researchers.

1.5 SCOPE AND DELIMITATION

The study seeks to examine access to finance for housing development in Zaria urban area. It is limited to answering the following questions: what are the sources of finance for housing development in Zaria urban area and what are the challenges of accessing

finance for housing development in Zaria urban area. The study excludes the assessment of the various housing financial institutions. Only eight residential neighborhoods (Hanwa new extension, Graceland-the new settlement behind Nigeria College of Aviation Technology, Zango new extension, Kabama settlement and Juchi waje, Gabari layout, Rafi sidi and Hayin danyaro) within the four districts that make up Zaria urban area is taken as the spatial dimension.

1.6 STUDY AREA

1.6.1 Location and Size

Zaria Urban Area is located between latitude 10^0 57' 36" N and 11^0 15' 32" N, longitude 7^0 39' 00"E and 7^0 53' 02"E. It is about 85km north of Kaduna. The urban area is made up of two local governments: Sabon Gari and Zaria. (Fig. 1.1 and 1.2). Zaria is one of the seven Hausa States, and it is situated in the southern part of Hausaland in Northern Nigeria. It is the administrative headquarter of Zazzau Kingdom.

The population of Zaria at the 2006 census figure is put at 695,069 (FGN 2007). This figure ranks Zaria second only to Kaduna in the state. This population is shared by the two local government areas, that is, Zaria and Sabon Gari as shown in Table 1.1. Due to the fact that official population assessment in Nigeria reflects administrative boundaries rather than settlements, this population figure also capture rural areas that are at the periphery but whose jurisdiction falls within Zaria and Sabon Gari Local Government Areas.

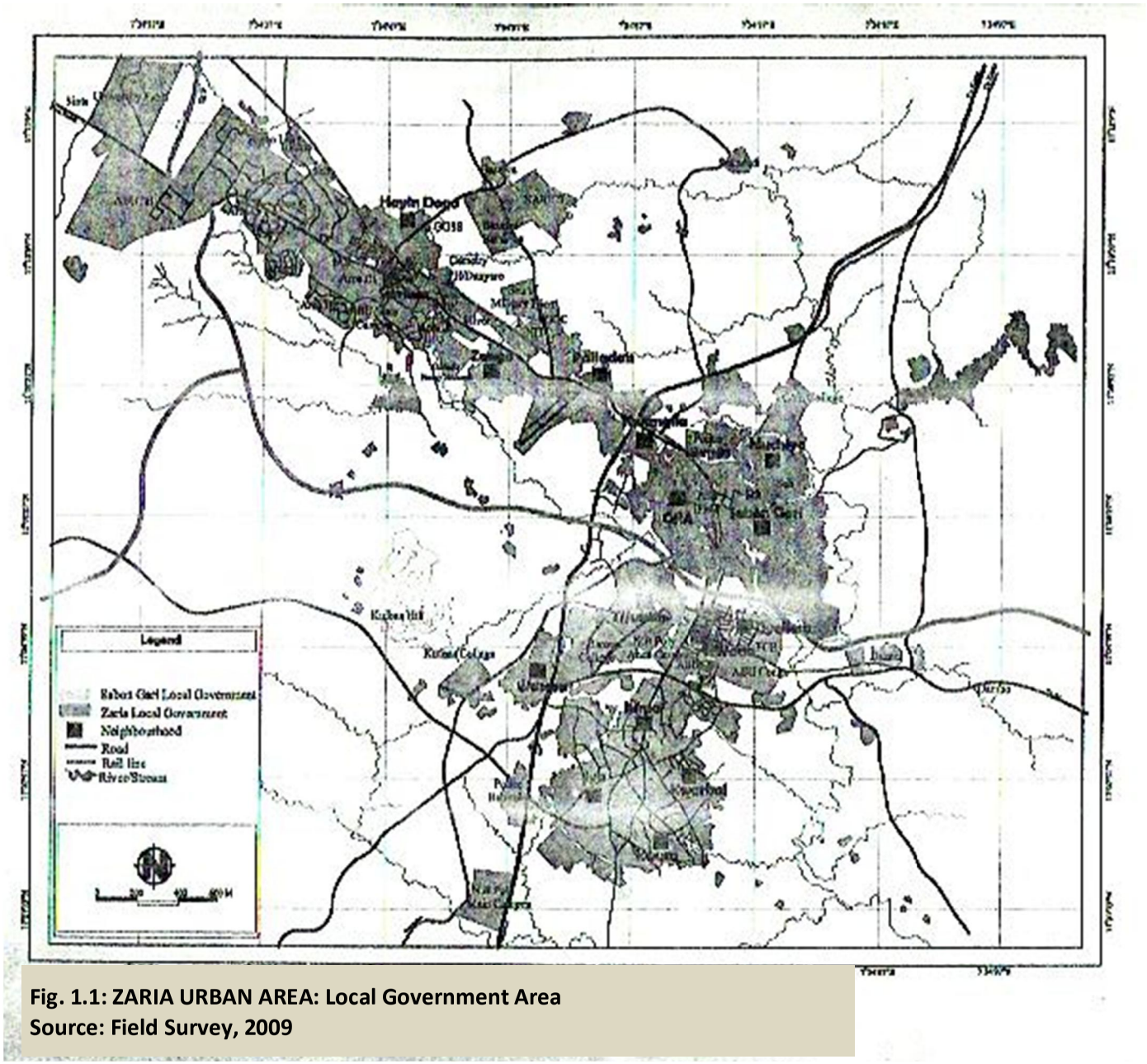


Fig. 1.1: ZARIA URBAN AREA: Local Government Area
Source: Field Survey, 2009

An estimate was made on the basis of a projection of the 2006 census figure to 2012 for the local government areas based on the national Average Growth Rate of 3.5 percent per annum. The estimate gives a total population of 841,033 for Zaria Urban Area.

Table 1.1: Population of Zaria Urban Area

Local Government Area	Sex				Total population	Total (%)	Estimated population for 2012
	Male	(%)	Female	(%)			
Sabon Gari	149.004	41.0	137.867	41.5	286.871	41.3	347.114
Zaria	214.057	59.0	194.141	58.5	408.198	58.7	493.919
Total	383.061	100.0	332.008	100..0	695.069	100.0	841.033

Source: NPC (2007) and Adjusted to 2012 at 3.5% Annual Growth Rate

Zaria is an important nodal point for both the railway and the road systems. It is connected to the north and southern part of the country by roads and railway. The nodal position in the national transportation system has attracted commercial, administrative and educational institutions to it. This causes a substantial expansion of Zaria. In this connection, there has been an increase in Zaria's population as a number of immigrants from other parts of the country are attracted to it.

1.6.2 Physical Form of Zaria

The present day Zaria is formed by four district urban sectors – Zaria City, Tudun Wada, Sabon Gari and Samaru (Fig, 1.2)

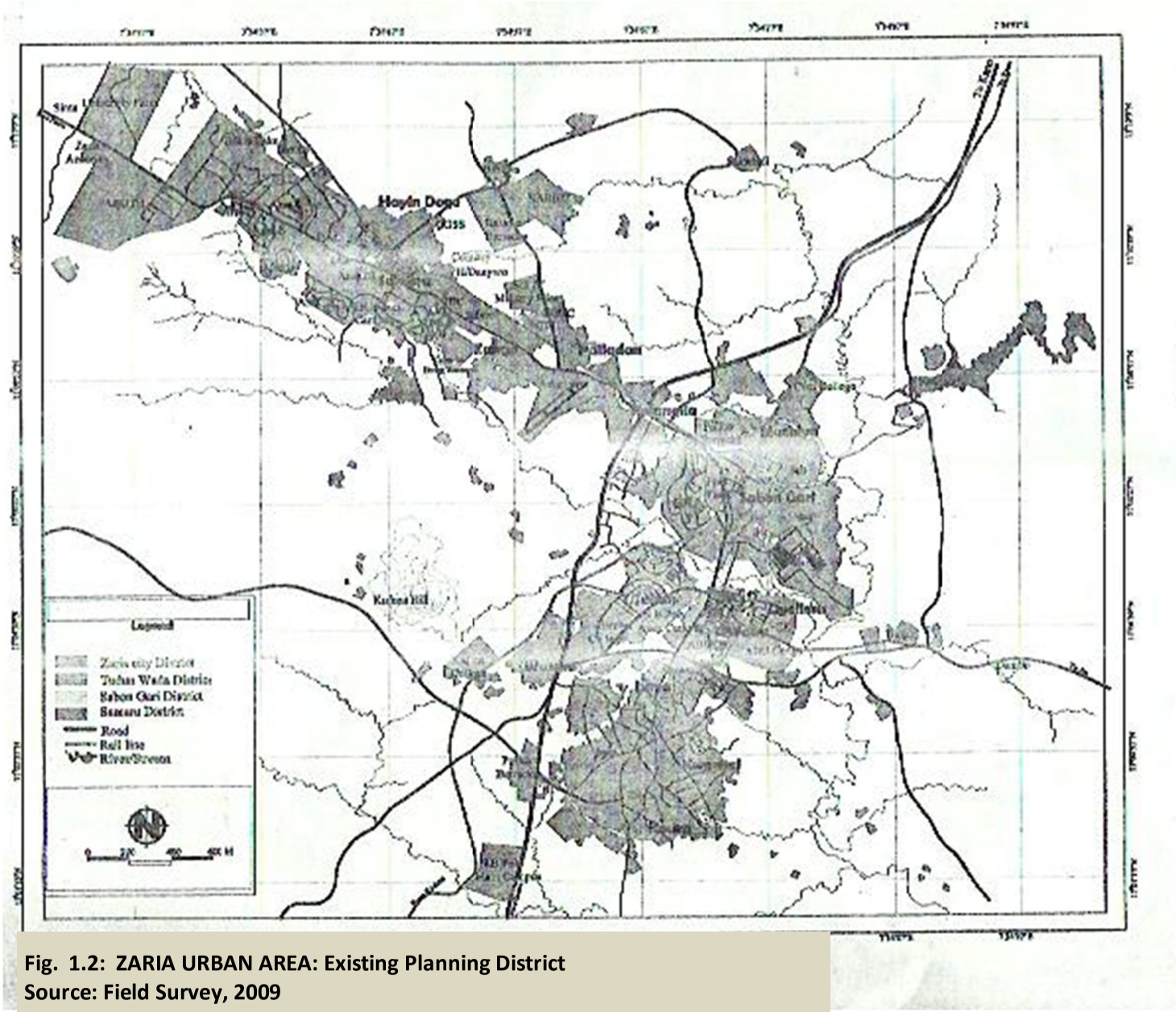


Fig. 1.2: ZARIA URBAN AREA: Existing Planning District
Source: Field Survey, 2009

Zaria City

Zaria city, which is the headquarters of the Zazzau Emirate, lies in the south of Zaria. The original walled city retains much of the physical character of the traditional indigenous settlement of the Muslim Hausa – Fulani population. The city still has a traditional character of perimeter wall, a complex maze of mud-walled compounds, and major roads secured by gates (Kofas) leading to the Emir's palace, the Friday mosque, and the marker area.

Tudun Wada

Tudun Wada is situated immediately north of the main city gate. It was the original strangers' quarters for non-natives of northern Nigerian origin. In recent times, however, Tudun Wada is inhabited by a more mixed population. Tudun Wada is characterized by a mixture of modern and traditional architecture with a street system in grid-iron pattern (Kaduna State Government, 1979), it is in this chapter that most of Zaria's academic institutions are located. Several expansions have been made to Tudun Wada as it now extends to Gaskiya, and Tudun Jukun.

Sabon Gari

To the North of Tudun Wada lies Sabon Gari. Sabon Gari was created by colonial policy to house strangers from the southern parts of the country. This is a recent quarters in Zaria and was built after the railway reached Zaria 1911. It houses immigrants of mixed cultures and religions. Sabon Gari was laid out on grid iron street pattern, which is indicative of an attempt at planning. The area is characterized by medium and low density residential plots. Later, areas like Muchia, Chikaji and Dogon Bauchi sectors were engulfed by development. Adjacent to Sabon Gari lies the Government Reservation

Area (GRA). It is characterized by West European oriented urban design pattern. The roads are properly laid out, plots are mainly of low density and there are lots of organized open spaces.

The Sabon Gari area was zoned to residential, commercial, industrial, health, education and recreational uses. This district has now transformed to become a commercial and entertainment centre of Zaria. The GRA was originally reserved exclusively for the British administrators but indigenous officers now occupy the area. It has the Zaria Club, the Polo field, Race Course and the Golf Club situated in it. After the GRA, moving northwards are a few indigenous settlements of Kwangila, Hanwa, and Dogorawa

Samaru

Samara is in the northernmost section and is the most recent addition to ZUA, it is religiously and culturally mixed settlement. Samara evolved from a small colonial farming settlement into a large community. Samaru village owes its growth to the influence of Ahmadu Bello University and the Institute for Agricultural Research. The settlement is inhabited mostly by people working in the university. The settlement has expanded overtime to include other settlements like Zango, Palladan, Layin Zomo and Bomo.

1.6.3 Socio-Cultural Characteristics

The composition of Zaria population is less heterogeneous than that of Kaduna of Kano. Nevertheless, Sabon Gari and Samaru population are more heterogeneous in character. The sectors of the town are activity specific. The indigenous small-scale craft industry has been traditionally well developed, it is owned by a system of interdependent family enterprises. This is especially evident in the Zaria city. Small groups of tanners, leather

works, dyers, potters and blacksmiths are found normally concentrated in a small cluster of adjacent compounds in the wards of the city. These crafts are handed down from one generation to another. Light industries are concentrated in Tudun Wada and Sabon Gari districts. In these districts, most of the firms and a number of the widest range of modern crafts and small industries are located. The modern crafts include tailoring, barbing, silver smiths, carpentry, etc (Sokomba,1980).

Education constitutes an important activity in Zaria and this gives a distinct character to the urban settlement. Also, education adds to the cosmopolitan character of Zaria and the morphological diversity it has occasioned. The concentration of educational activities in Zaria has considerably diversified the composition of its inhabitants by bringing together people of different nationalities and ethnic groupings.

1.6.4 Household Characteristics

This sub-section gives highlight of the household characteristics of Zaria as they relate household size and income.

1.6.5 Household size and Income

Most households live in compounds with an average of three other households, an average of 9 people per household and a compound size of 22 people (Sani, 2006). The majority of households are low income earners. Most of the households head, that is, about 46 percent earns less than ₦10, 000 per month. Apart from the GRA that can be described as having a relatively high level of income, all the other neighbourhoods can be classified as low-income areas.

CHAPTER TWO

AN OVERVIEW OF THE CONCEPT OF HOUSING FINANCE AND IMPLICATIONS FOR HOUSING DEVELOPMENT

2.1 INTRODUCTION

This chapter will be focused on presenting a succinct review of existing literature to justify the need for the study. It will also discuss the definition of housing finance, case studies on housing finance and the lessons from such studies. An attempt is also to discuss the development of housing finance in Nigeria, the review of existing housing finance system in Nigeria as well as the housing development problems in Nigeria.

2.2 DEFINITION AND MEANING OF HOUSING FINANCE

The term financing refers to the process of obtaining funds or capital generally for the purpose of supporting a development and / or investment by gaining control over assets (UN/ Habitat, 1984). Housing finance is a broad topic, the concept of which can vary across continents, regions and countries, particularly in terms of the areas it covers. For example, what is understood by the term "housing finance" in a developed country may be very different to what is understood by the term in a developing country.

The International Union for Housing Finance, as a multinational networking organisation, has no official position on what the best definition of housing finance is. However, the selection of quotes below is offered as a snapshot of what housing finance as a topic covers:

"Housing finance brings together complex and multi-sector issues that are driven by constantly changing local features, such as a country's legal environment or culture,

economic makeup, regulatory environment, or political system" (Chiquier and Lea, 2009). In addition, the concept of housing finance and housing finance systems has been evolving over time. Looking at definitions from the mid-1980s, we see that housing finance was defined primarily in terms of residential mortgage finance.

> *"The purpose of a housing finance system is to provide the funds which home-buyers need to purchase their homes. This is a simple objective, and the number of ways in which it can be achieved is limited. Notwithstanding this basic simplicity, in a number of countries, largely as a result of government action, very complicated housing finance systems have been developed. However, the essential feature of any system, that is, the ability to channel the funds of investors to those purchasing their homes, must remain."(Boleat, 1985)*

However, in more recent years, a number of other much wider definitions have appeared: "Put simply, housing finance is what allows for the production and consumption of housing. It refers to the money we use to build and maintain the nation's housing stock. But it also refers to the money we need to pay for it, in the form of rents, mortgage loans and repayments." (King, 2009).

"There is recognition of other relevant forms of housing finance (apart from residential mortgage finance) such as developer finance, rental finance, or microfinance applied to housing. Developer finance is often in the form of unregulated advance payments by buyers, and developers sometimes provide long-term finance to buyers through installments sales when mortgages markets are not accessible. Microfinance for housing is typically used for home improvement or progressive housing purposes. Loans are typically granted without pledging properties. Although the overall impact of microfinance in housing remains limited, this activity can represent an important source of funding for those in the informal sector." (Chiquier and Lea, 2009).

Access to housing finance has always been an important issue for modern housing scholars and development practitioners (Abrams, 1966). The relative policy significance of the affordability and availability of finance for housing provision, however, has varied. But over the last few years, as the conception of housing has shifted from being a social sector to an economic sector, access to finance, and the development of supportive financial institutions has become one of the most discussed and central issues in housing policy for developing countries (Datta & Jones, 1999; Keivani & Werna, 2001; World Bank, 1993). In spite of the growing and accepted emphasis of finance, relatively little is known about how builders and developers finance the construction of new housing. We do know, however, that very few developers have access to formal finance (Addae-Dapaah, 1999; Tipple, 1994; Tipple, Korboe, Garrod & Willis, 1999). But if most developers do not appear to be borrowing from banks and other formal institutions of finance, where is the money coming from?

Most of the literature on formal finance in developing countries has focused on the demand side: mortgage finance for housing consumers. One reason for this is the failure of the earlier supply side, public housing policies as the conventional tool to bridge the gap between the cost of housing and the affordability of housing consumers (Pugh, 1994; Renaud, 1999).1 In addition, it was also argued that in the short-term, it might be too risky for public policy to emphasize supply side finance (Boleat, 1987).

Now the main emphasis in housing policy is to limit, or abandon, subsidies, develop market-oriented, mortgage finance systems and focus on private property rights as securable collateral for mortgage lending (Mayo, 1994; World Bank, 1993). Scholars of informal housing and finance are critical of the prevailing, predominant emphasis on

mortgage finance (Baken & van der Linden, 1993; Datta & Jones, 1999; 2001; Rakodi, 1995). They, however, do not typically discuss the need for development finance either, but promote the idea of incremental housing consolidation.

The argument is that housing policy should focus on access to land, and the provision of financial support, to allow for gradual housing improvements over a period of time (Angel, 1983; United Nations Centre for Human Settlements, 1983). They do not discuss funding sources for the informal land developers and illegal land sub-dividers. For housing construction, however, the incremental housing consolidation model collapses the dichotomy between supply and demand. The residents are the producers as well as the consumers of housing. In this model, micro-finance – small amounts of credit for the short-term and backed by non-conventional collateral – is more appropriate (Ferguson, 1999; Mitlin, 1997; Patel & Burra, 1994).

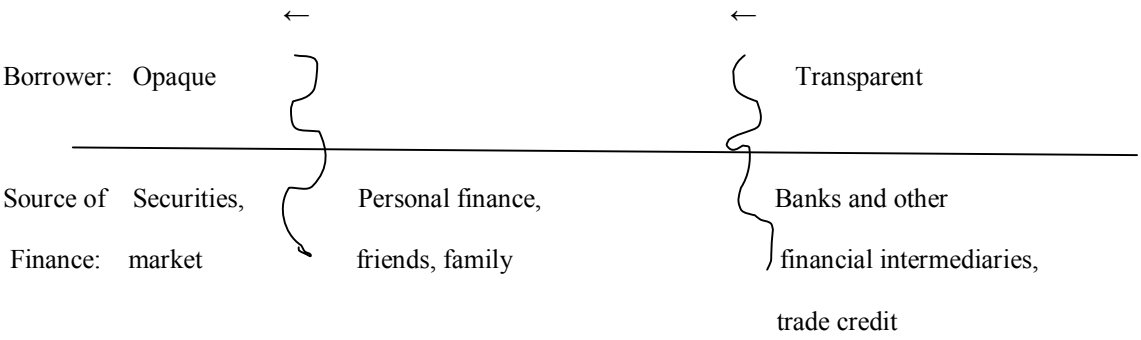
2.3 MAJOR ELEMENTS OF HOUSING FINANCE

The provision of finance for the purchase of residential housing is, or should be, an important part of any society's financial structure. Compared to a household's average income, the purchase of a housing unit is a large investment – in many cases it is in fact a household's biggest life-time investment. The question of how to finance this investment is therefore a crucial one. Efficient finance for residential housing can encourage a better matching of households' preferences for housing with the available and potential supply of housing, thereby improving social welfare. Further, to the extent that efficient finance encourages more widespread ownership by occupiers, there are likely to be additional social benefits. Financial transactions, except for self-finance, involve at least two parties.

Though financial transactions can attain great complexity, their essence can be portrayed in terms of a simple loan transaction: Party A lends money or resources to Party B at time t and expects to be repaid at some future time t+1. At one level, this simple example may seem to be trivial and uninteresting. But it conveys the essence of finance: the time dimension, and the lender's expectation of repayment. Because repayment occurs at a future date, separated in time from the initial loan, the lender is generally concerned about the guarantee of repayment. Before making the loan, the lender will want to be assured that the prospective borrower is likely to repay the loan (and any interim interest that is charged); and even during the period of the loan the lender is likely to want to be assured that the borrower's actions are consistent with timely repayment. However, since lenders will not know much about the borrower and borrower's attitude towards repayment of the loan, the lender will want to know that the borrower's actions are consistent with the timely repayment of the loan. Consequently, finance is associated with extensive efforts involving pre-loan information gathering and assessment of potential borrowers, and monitoring of actual borrowers during the loan, with institutions and practices arising in order to facilitate these information-intensive processes.

In general terms, the processes of finance can be described in terms of the informational transparency or opaqueness of potential borrowers, as portrayed in Figure 1.

Figure2. 1 The spectrum of informational opaqueness/transparency



Source: International Union for Housing Finance (IUHF)

In this figure, potential borrowers are arrayed along the horizontal line, according to how informational transparent (or opaque) they are with respect to the finance-related information that a potential lender would want to know. At the left side would be, for example, a young adult who is entering the labour force and who has had no previous financial transactions; he/she has little in the way of a "track record" that can assure a lender as to repayment, and is thus highly opaque. At the right side would be an institution whose track record for repayment is transparent and well regarded. In between would be individuals, enterprises, organizations and Governments of varying degrees of transparency. These potential borrowers can be matched with various lenders, which can be roughly grouped into three categories. At the far left, highly opaque borrowers are likely to have to rely for their finance on family and friends, who may have special information about the individual or particular means of extracting repayment or who may be willing to provide "concessional finance" by converting a loan into a grant. At the far right, highly transparent (and reliable) borrowers can access the securities/bond markets, where bonds are purchased by investors (who thus lend to the borrower) who rely heavily on publicly available information about the borrower and his/her reputation. In between, financial institutions which are information gathering and assessment specialists (such as

banks and other depositories, finance companies, insurance companies, venture capital firms) are likely to be the sources of finance for borrowers of intermediate transparency/opaqueness.

The legal framework and the institutional and historical context in which the financial transactions are embedded are likely to influence the specific mix of which kinds of lenders provide what kinds of finance to which borrowers. This indeterminacy is indicated by the "wiggly" lines that separate the three categories of providers of finance. Finally, the arrows above the separation lines point to the left. This is meant to indicate the direction in which technological change in finance has pushed the boundaries. The right-hand boundary has moved to the left as technological change has permitted the securities markets to "invade" the "territory" of financial transactions that used to be the exclusive domain of the information specialist finance providers (such as banks); this is the process of "securitization" in the United States. The left-hand boundary has moved to the left as well, as technological change has permitted banks and other lenders to provide finance (for example through credit cards) to individuals who previously could rely only on family and friends.

There Are Essentially Three Major Elements Involved In Any Loan:

1. ***Origination***: the initial granting and funding of the loan;

2. ***Ultimate holding and funding***: the eventual holding (and thus funding) of the loan; and

3. ***Servicing***: the arrangements to facilitate timely payment of principal and interest.

Source: International Union for Housing Finance (IUHF)

In addition, lenders will want some agreed arrangements for default contingencies: the procedures that will be followed in the event that the borrower fails to make timely payments. Housing finance is no exception to this pattern, and the institutional arrangements that have arisen for housing finance shall be described.

The three elements of finance can all be performed by the same entity; this is often described as "vertical integration". Or they can be separately performed by different, "vertically disintegrated" entities. Though the former pattern is more traditional and more common, the latter has grown in frequency with the advent of MBS as a finance alternative.

There Are At Least Eight Major Ways Of Providing Housing Finance:

i. Owner self-finance

The buyer-owner provides the finance, through prior personal saving; the other elements are irrelevant.

ii. Seller finance

The seller provides the finance. In essence, the seller accepts payment for the sale of the house in a stretched-out schedule, thereby extending an implicit loan to the buyer. The seller originates the loan, funds it and services it. The residential unit that is being financed will almost always serve as the collateral for the loan, which in this form would be described as a mortgage.

iii. Third-party finance: family or friend

A family member or friend extends the loan (mortgage) to the owner and thus originates funds and services it.

iv. Third-party finance: a bank or other depository

A bank extends the loan (mortgage) to the owner and thus originates, funds and services it. In turn, the bank receives most of its financing from depositors; but the depositors' claims for repayment of their funds are directed toward the bank, not toward the borrowers to whom the bank has extended mortgages.

v. Third-party finance: an insurance company

Most insurance companies holding mortgages do not originate them. Accordingly, origination would be by a mortgage banker (an origination specialist), who would sell the mortgage to the insurance company. The latter funds and services it. The insurance company, in turn, obtains its funding from the premiums paid by its insurers and from any additional borrowing that it may undertake.

vi. Third-party finance: a finance company

If a finance company holds mortgages, it is unlikely to originate them; again, origination would be by a mortgage banker, who would sell it to the finance company that funds and services it. The finance company's funding, in turn, comes from its borrowings in capital markets.

vii. Third-party finance: Government

In principle, the Government could provide the mortgage (with either direct origination, or origination by a mortgage banker), with funding ultimately by taxpayers or by government borrowing.

vii. Third-party finance: MBS

The originator either "packages" the mortgage (with other mortgages) into a security, or sells the mortgage to another entity which does the packaging. The "pass-through" security (so called because the borrower's interest and principal payments are passed through to the buyer) is then sold to a party that wishes to hold the security and receive the interest and repaid principal and is thus the funder. That party may be a private investor, a mutual fund, a pension fund, a bank, an insurance company, or any other entity which is attracted to the MBS as an investment. The servicing can be carried out by the originator or may be sold to a specialist service provider. Since the MBS are securities, they may be readily sold to other investors in a "secondary market".

Mortgage lending entails certain risks that have to be properly managed if the business is to be successful. First of all, to avoid legal and/or regulatory risks in the activity, the existence of an adequate legal environment that supports the housing finance system is an essential prerequisite. Existing legal provisions must secure private ownership of immovable property and allow that the property title is given as a security for a mortgage loan. This system has to be supported by a functioning land registry, which records the history of an immovable good, and by a foreclosure system which enables a lender to proceed to a forced sale in case of non-repayment of the loan.

The introduction of the relevant foreclosure system needs to be accompanied by effective enforcement mechanisms. Certain macroeconomic risks or market risks are generally beyond the control of the mortgage lender. High inflation risk, for example, is often seen as an obstacle to long-term housing finance. Variable interest rate loans may

sometimes be a more attractive alternative to borrowers than fixed-rate mortgage products, and vice versa. (Source: International Union for Housing Finance (IUHF))

Another risk relating particularly to housing finance is the volatility of the property price, that is, the uncertainty of its value as collateral for a long-term loan. This may lead, as in certain transition countries, to a lowering of loan-to-value ratios and a need for additional collateral. Sound valuation rules and prudent management are the remedies against this risk. Other risks that more directly concern the housing loan providers themselves are the audit risk and the operational risk.

Audit risk management includes the requirement for an adequate assessment of the customer's willingness and capacity to repay the loan for its duration. It is necessary that the lender uses specific criteria which take into account the characteristics of the local market. Furthermore, in a number of countries audit risk offices have been established which retain data on customers' retail, finance and other accounts to keep track of missed payments. This important support facility for the housing loan sector is, however, still limited or unavailable in most transition countries. A complication for risk management is unreported income, which is often an important source of revenue but difficult to take into account without formalities. Credit risk management also requires a fair portion of equity. This motivates the borrower to continue to pay, and the lender to recover the damage in case of default. Another element in audit risk management is the availability and use of other kinds of collateral (if necessary). A mortgage insurance programme, as established in certain countries, as well as the provision of financial advice to the borrower may help to reduce the default risk.

Of course, operational risks have also to be tackled. Where operational errors and fraud occur, operational costs increase and the business is no longer profitable. Useful tools to reduce these operational risks are the training of staff to increase efficiency and reduce the potential for error, the use of technology (which increases the volume of operations and facilitates the collection and analysis of data), and the standardization of documents and operations (which should lead to lower costs). Source: International Union for Housing Finance (IUHF)

2.4 CASE STUDIES ON HOUSING FINANCE

2.4.1 Housing Finance in Tanzania

The Housing Finance System

Under the shelter policy, financial institutions lending for housing were to be responsive to the needs of low-income groups in both rural and urban areas. It was envisaged that new financial institutions might be created to increase lending opportunities. The Tanzania Housing Bank (THB) was created in 1973 and became the sole source of formal housing finance. It was only marginally able to lend to low-income groups and over the years, lending declined in real terms as both building costs and interest rates increased. The THB was liquidated effective from August 1995. There is currently no formal source of financing for shelter development in Tanzania. Main problems associated with housing finance in Tanzania are:

- There is a near complete lack of formal mortgage housing finance facilities in the country and this has made house construction a difficult process for many households especially those in the low income categories;

- Government's allocation of the national budget to housing has been generally low and is declining; and
- There is lack of capacity for housing development both at national and local levels.

In Tanzania due to the government policy in the past to put more emphasis on the participation of the public sector in the economy, the private sector played a passive role. This passivity affected the industries that support the development of the housing sector. The central government has not pushed for housing to be a priority alongside health and education in Tanzania nor has it instituted machinery for mobilizing finance from all sectors for housing finance. The absence of long-term finance has an adverse effect on the social economic aspects of the country. Vuyisani (2003)

2.4.2 Housing Finance in Ghana

The Housing Finance System

The banking system in Ghana did not escape the economic decline and political instability of the 1970s and 1980s. General lack of confidence in the banking system by the public, the banks' inability to engage in venture capital, high default rates, widespread fraudulent practices and lack of expertise to properly appraise projects were some of the problems facing the banking system (Hanson, 1999). A few banks in Ghana offer mortgages to High Net Worth customers. The First Ghana Building Society (FGBS) has so far been unable to provide mortgage financing on a sustained basis. Home Finance Company Limited (HFC) has turned out to be the dominant housing finance institution in Ghana, providing a wide range of mortgage financing on a sustained basis to a broad spectrum of customers.

The HFC was originally conceived to operate as a secondary mortgage institution providing sustained housing finance in a two-tier housing system. A two-tier mortgage financing system in Ghana was based on the following assumptions: that there would be strong Central Government support for HFC given the acute housing shortage; that the creation of HFC as a secondary mortgage institution would be the catalyst to jump start primary mortgage lending by banks after their restructuring.

The newly restructured banking system would be insulated from significant risk through an arrangement whereby the primary institution would bear only 10% default risk, with Government bearing the remaining 90%. HFC was thus to bear no default risk. The operation of the mortgage market has turned out differently as only one primary institution has been active in the market.

Financial institutions supposed to operate in the primary market do not consider the commission of 1.5% p.a. attractive enough. This is in spite the fact that they would not invest their own funds and bear only 10% default risk. Most households in Ghana use their own savings, sweat equity, barter arrangements and remittances to build their houses. The commercial financial institutions provide very little support to low and moderate-income households in the form of mortgages. Where has it done so, it has favoured the owner occupied and new dwellings and offers very limited support to the rental and incremental housing development.

The traditional mortgage lender is limited in its ability to serve low and moderate-income households. The payment-income ratio is too high. Transaction costs in lending to this market are usually high and small loans are unprofitable and riskier for a commercial

lender. Ferguson (1999) notes that incremental building process is the only building strategy that works for low and moderate-income households. In Ghana, the incremental building process is used largely.

Empirical evidence from the micro-finance institutions around the developing world supports the argument that shorter loans are better for the poor. Mortgage loans are usually for longer terms of up to twenty years. Vuyisani (2003)

2.4. 3 Housing Finance in South Africa

The Housing Finance System

Lack of finance is one of the major problems when it comes to housing delivery. Access to credit for housing purposes has been identified by the Government as a cornerstone in a sustainable housing delivery process. The Government recognizes the need for attracting housing investments from sources outside the state, and that housing has to be provided within a normalized market and thus attract maximum private investment. South Africa's housing market is characterized by four key market segments:

Table 2.1: four key market segments identified in the South African Housing Market

Segment 1	Segment 2	Segment 3	Segment 4
Formally employed, middle to high income	Formally employed, low Income	Informally employed, low income	Informally employed or unemployed, low income or no income
Regular income of more than R3500/month with access to collateral and security	Regular income of between R1500 to R3500/month, with access to collateral and security.	Irregular income between R800 and R3500/month, with limited collateral and security	Income below R1500
Can access conventional mortgage housing finance	Require small and medium loans for housing	Require small unsecured loans, typical from group lending schemes	Fully subsidized market

Source: Housing in Southern Africa. Vuyisani (2003)

In South Africa the housing finance system has had little impact on the low-income segment of the population. Attempts to expand credit into this market through micro-loans have been characterized by initiatives that have yet to demonstrate some form of success. The financial sector in South Africa consists of many banks, a number of specialized finance companies and a large number of the so-called alternative lenders. The following range of institutions and institutional types make up the South African housing finance system:

Large banks, (ABSA, Standard, Nedbank, First Rand); small banks, (African Bank, Peoples Bank, Cashbank, Unibank, Teba Bank, etc); micro lenders, (1 334 enterprises registered with the MFRC); Social Housing Institutions, (Greater Germiston Inner City Housing, Johannesburg Housing Company, Cope Affordable Housing, etc); Provincial Development Corporations (Ithala Development Finance, Mpumalanga Housing Finance, North West Housing Finance); NGOs (Utshani Fund, Habitat for Humanity, Urban Sector Network); Government Institutions (NHFC, NURCHA, NHBRC, Servcon) and some other institutions including Fund administrators.

Through the Record of Understanding signed in October 1994 between the Government and the Association of Mortgage Lenders, the Government pledged to normalize the low-income housing market and the financial institutions formally agreed to re-enter the market. As a result, a number of institutions were established:

The Mortgage Indemnity Fund (MIF), was launched in June 1995 as a wholly government owned company to encourage formal financial institutions to lend in areas where they had stopped doing so. The MIF closed in May 1998 as it was only to operate for a three-year period and it never paid a claim. Vuyisani (2003)

Servcon is another institution set-up in June 1995 to stimulate lending in the low-income housing market and deal with the historical problems, particularly that of non-payment. It was established to manage some 14000 properties repossessed by the banks, where they had been unable to obtain vacant possession. Servcon has so far reduced the number of these non-performing loans in the lower income-housing sector by 49.5%.

The National Housing Finance Corporation (NHFC), was formed in 1996 by the Government to increase housing delivery. The NHFC aims at encouraging increased and sustained involvement of formal financial institutions in the low-income housing market through risk sharing ventures with these institutions. It supports the growth of the emerging alternative lending sector by providing credit in markets where the formal banking sector is not yet engaged since these emerging alternative lenders lack adequate capacity and sustainable access to funding. To date, the NHFC has mobilized and disbursed more than R1.4 billion to the low and moderate income households. The NHFC is playing a significant role in the Presidential Job Housing Pilot Project, and was instrumental in the formation of the Micro Finance Regulatory Council (MFRC). The National Urban Reconstruction and Housing Agency (NURCHA), was established in May 1995. The NURCHA's mission is to focus on releasing finance from lending institutions who regard the housing sector as a high-risk area for lending. It does this by offering guarantees to financial institutions or developers through which risks on loans made to projects are shared. By end of 2000, NURCHA had paid R901 750 in claims to banks.

The National Homebuilders Registration Council (NHBRC) was founded in 1995 to protect consumers and to regulate homebuilders, as well as to raise construction standards. Since inception, more than 88 851 homes have been enrolled under their Defects Warranty Scheme.

The Scheme aims to protect the consumer against shoddy workmanship in the home building industry. From 2002, even the RDP houses had to have the protection of the NHBRC warrantee and for this the beneficiaries have been asked to pay R2479. Vuyisani (2003). Despite these concerted efforts by the government to try to solve the problems in the low income housing market, the formal banking sector still finds it too risky to act in the market. The established institutions have not succeeded in normalizing the market. The reason for the failure may be that the institutions have not been operating long enough and that they just need more time before sufficient results can be seen. There is still an acute shortage of houses in the country and the reluctance and unwillingness by traditional financial institutions to grant loans to low-income earners exacerbates the situation. A sophisticated and effective housing finance system however exists for the middle and upper income segments of the housing market.

2.4.4 LESSONS FROM THE CASE STUDIES

Housing finance has to be seen in the context of the national economy and more specifically the national financial system. The state of housing operations in Africa reflects to some extent the state of the economies. It is not likely that the housing problem can be solved without solving the economic problem. It is evident from the case studies that in Ghana and Tanzania the blockage to housing delivery is largely contributed by the

lack of formal credit facilities to cater for the poor and lack of focus on housing. In cases where these are available, only the upper end of the market is able to access credit. In South Africa government is dealing with this form of discrimination through appropriate policies. Even though specialized institutions established by the government to partner with banks for affordable housing delivery have yet to demonstrate substantial progress, South Africa is leading by example through its capital subsidy scheme for the poor, and by encouraging and compelling financial institutions to serve the low-and moderate-income market through appropriate policies. If these policies are implemented a large pool of funds could be made available to cater for the low-income earners.

The generic problem that eliminates low-income earners from the housing market is affordability. The gap between income and shelter cost is very wide. If the cost of constructing new houses is not within reach of low-income earners, then revitalizing the existing stock can be an alternative mechanism to improve housing. Incremental housing is implemented in South Africa and Ghana through micro-finance for housing. In Tanzania, it is almost non-existent because micro-finance is a fairly new concept. Micro-finance in certain quarters has been regarded as a successful instrument in lending to the poor for them to spent those loans on home improvements and expansions.

It is clear that the current state of housing finance in all of these countries outside South Africa require a comprehensive approach by Governments as without adequate will by the State home ownership by low-income groups will remain a distant dream.

2. 5 DEVELOPMENT OF HOUSING/MORTGAGE FINANCE SYSTEM IN NIGERIA

Mortgage banking development in Nigeria can be traced to the establishment of the Nigeria Building Society in 1956. The vehicle used for this capital investment was the Common Wealth Development Corporation with advance share capital of 81,625,000, GB pounds. The society collapsed in early seventies due to its inability to perform its statutory functions. This led to government injecting N20m and changing its name to Federal Mortgage Bank of Nigeria (FMBN). The FMBN took off in 1977, with a takeoff capital of ₦20 million from the federal government. The FMBN was unable to meet up with the pressure of demand. In 1970, outstanding application were ₦223.8 million and available funds equaled ₦127.0million, meaning that demand and supply was in the ratio of 2:1. This degenerated to ratio 4:1 in 1986 when the outstanding application increased to ₦465.8 million and only ₦105.3 million was available. The bank has never been able to meet up with demand. The failure of the FMBN over the years and acute shortage of housing led to the promulgation of the National Housing Policy of 1991. The policy of National Housing Fund and the decree of 1992 were promulgated to strengthen housing finance. The legal framework for the establishment, operation and regulation of mortgage business in Nigeria are prescribed in the Mortgage Institutions Decree No. 53 of 1989. The promulgation of the decree was informed by the need to promote the rational evolution of institutional structures, and to accelerate the development of institutional structures to accelerate the development of financial intermediation within the housing delivery system.

Through the development of appropriate financial instrument, the ultimate aim of FMBN is to encourage an enhanced level of mobilization to support a credible housing delivery

system to serve all Nigerians. The mortgage institutions in Nigeria are operated according to the National Housing Fund Decree of 1992, which was revised in 1996.

2.6 REVIEW OF EXISTING HOUSING FINANCE SYSTEM IN NIGERIA

2.6.1 Housing Finance Requirements

A housing finance system is a superstructure of laws, institutions and relationships between institutional and non-institutional units that facilitate the process of financial intermediation and capital formation in the housing sector (Megbulugbe & Osamwonyi, 1987; Olotuah, 2006). Without an effective finance system, no housing policy can be effectively implemented. However, the emphasis in this review will be on relevant institutions and their activities. Indeed the framework must effectively reconcile the affordability limitation of households with viability requirement of financial institutions.

The present structure of housing finance in Nigeria can be classified into the following. Informal sector (Esusu i.e. Traditional Co-operative System, Credit Co-operatives and family savings); Formal Sector (Non-specialized Institutions and Specialized Housing Finance Institutions). Others(Communities, Associations and Non-Governmental Associations).

2.6.1.1 The Informal Sector

The informal sectors of housing funding in Nigeria are traditional Esusu, credit co-operatives, family sources and individual savings. This sector is usually local and informal in organization based on trust, love and friendship. The operation of this sector is difficult to quantify as they operate on transfer of cash and kind. These include donations of land, building materials, cash assistance or sometimes any of these could be

in form of loan. The informal sector operation also involves direct labour assistance. It is interesting to note that this sector constitutes the larger proportion of housing providers in Nigeria.

2.6.1.2 The Formal Sector

The operation of the formal sector can be classified into Non-specialized Housing Funding Institutions and the Specialized Housing Funding Institutions

Non-Specialized Housing Funding Institutions

This sector includes the Employees Housing Schemes, Commercial, Merchant Banks and Insurance Companies.

i. The Employees Housing Scheme and National Housing Fund

The need to encourage employers of labour to use part of their profit to provide housing for their workers led to the promulgation of the 1979 "Employees Housing Scheme (Special Provision) Decree". The decree requires among others, large employers of labour specifically those who either have not less than 500 persons in their employment in any state of the federation or may be designated as such by the Federal Commissioner (now minister) with the approval by the Federal Executive Council to establish a housing scheme for their employee. The decree further states that not less than three quarters of the total accommodation made available in every such scheme shall be for employees who are not executive or senior staff. This is perhaps one of the major housing policy instruments aimed at facilitating the participation of corporate bodies in housing delivery. It has achieved very little. This is partly due to the weak machinery for monitoring which is in a division in the Ministry of Labour (Agbola, 1995). The National Housing Fund (NHF) Decree was promulgated in 1992 aimed at increasing the financial pool that could

be used for housing. Nigerians earning from ₦3000 per annum and above are expected to contribute 2.5% of their income into NHF.

ii. Commercial and Merchant banks

Prior to the National Housing Fund Decree, commercial and merchant banks always held a very significant proportion of the mortgage assets within the formal lending sector (Onabule, 1990). Within a combined total assets of about ₦86,660million as at December 1989, the commercial and merchant banks held a wider asset base than any other institutional group within the financial sector during this period. Their combined loans and advances portfolio totaled ₦27.7 million. About 13% were for real estate. (CBN Economic and Financial Review, 1990). Though with the high interest rate in the financial market, commercial and merchant banks are now reluctant to finance housing projects except where the houses are to be placed in the market for outright purchase, though this is not good enough for the low income earners. The banks are operating with short-term deposits whereas housing finance can only strive in a long term funding environment.

iii. Insurance Companies

Prior to the promulgation of the National Housing Fund Decree, insurance companies were obliged to invest not less than 25% of their life funds in real estate. This was not satisfactorily complied with by these companies because there are many other alternative investments into which they can inject policy holders fund and achieve better investment returns.

Specialized Housing Funding Institution

Specialized housing funding institutions in Nigeria include the following: The Federal Mortgage Bank of Nigeria , Primary Mortgage Institutions, Housing Corporations and Urban Development Bank.

i. The Federal Mortgage Bank of Nigeria

The Federal Mortgage Bank of Nigeria (FMBN) was established in 1977, with the inheritance of the assets and liabilities of the Nigerian Building Society (NBS), which was dissolved in the same year. The FMBN was created essentially to serve as a wholesale and apex housing finance institution in Nigeria under Decree 7 of 1977. Other institutions created with the responsibilities to serve as housing finance were created through Decree 53 of 1989. They include the Primary Mortgage Institutions such as Building Societies, Housing Associations and Credit Unions. Among the major responsibilities of the FMBN are: the provision of long-term credit facilities to mortgage institutions in the country; encouragement and promotion of development of mortgage institutions at state and national levels, supervision and control of the activities of mortgage institutions, mobilization of savings particularly through the National Housing Fund, promotion of investment in the manufacturing of building materials and promotion of research on construction and mortgage finance. The role of the FMBN has also been expanded to back the mortgage finance market with the capital market and develop the viable secondary mortgage market and to mobilize foreign funds into the housing finance sub-sector. The shortcomings of the FMBN operation must have led to the re-examination of National Housing Policy and the establishment of the National Housing Fund; the two policy instruments of government aimed at enhancing housing delivery in

Nigeria . The National Housing Policy also led to establishment of Primary Mortgage Institutions (PMI) in Nigeria. Unfortunately within less than five years of the taking off of PMI most of their operations were confronted with problems which resulted into the situation whereby most of the PMI's have their offices closed.

ii. Primary Mortgage Institutions

One of the major achievements of the National Housing Policy is its institutional reform which resulted in the establishment of a two-tier formal housing finance system following the promulgation of the Mortgage Institution Decree no. 53 of 1989. Under this arrangement the FMBN was restricted as the country apex mortgage institution with a supervisory role over a network of PMI. The PMI's are to serve as secondary housing finance institutions. Under the arrangement the FMBN ceases operation as retail housing finance institution. This role is to be performed by the PMI's. The role of FMBN henceforth remains as the apex and regulatory body. To perform these functions the FMBN was re-organized into three divisions as follows:

- The National Housing Fund Division charged with the responsibility for the arrangement of the National Housing Fund.
- The Regulatory and Inspectorate Division charged with responsibility of monitoring and regulating housing finance sector operations and
- Corporate Service Division to provide administrative, accounting and management information services to the core divisions.

Functions of Primary Mortgage Institutions (PMI's)

The basic functions of the PMI's as stated in the official guidelines of the FMBN are as follows:

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

ii. To operate efficient and effective mortgage institutions.

iii. To dictate the level and pace of growth industry and minimize avoidable fraudulent loses of PMIs.

iv. To ensure timely and adequate loan performance in order to create opportunity for structure expansion in the provision of housing finance.

Based on the report released by the Central Bank (2003) out of about 350 PMIs licensed only 81 are presently declared healthy. To enhance deposit mobilization many PMIs developed attractive products in addition to the National Housing Fund such as social loan, economic loan, commercial loan, mortgage administration deposited institutional deposits, children savings among others.

The nature of these deposit accounts and loan facilities are discussed as follows:

iii. Housing Corporation

The first Housing Corporation in Nigeria was the Western Nigeria Housing Corporation established in 1959 after which other State Housing Corporations including the Federal Housing Authority were modeled. They are all established to make available to Nigerians long term credits for housing development. Having realized this shortcoming in their operations many state governments have established property finance agencies, such as Lagos Building and Investment Company (LBIC) to serve the Lagos State Development

and Property Corporation (LSDPC) and Ogun State Property Investment Corporation (OPIC) to service the Ogun State Housing Corporation. Virtually all states of the federation have this type of configuration established to promote smooth funding of the housing sector, with operations more favorable to government housing development.

iv. Urban Development

The Urban Development Bank of Nigerian (UDBN) Plc, was established by Decree No 51 of 1992 to foster the rapid development of urban infrastructure throughout the federation through the provision of finance and banking services (Zubairu, 1997). It is in the context of infrastructure that the issue of housing finance became part of the bank responsibilities. UDBN cannot be regarded as a bank like any of the regular commercial and merchant banks but a development institution with banking functions.

2.6.1.3 Others

Other institutions such as community association, non-governmental organizations are also involved directly and indirectly in housing delivery process in Nigeria. The following are some of the notable housing projects embarked upon by NGOs.

2.6.1.4 MTNF Low Cost Housing Project – Shelter for Comfort: In 2005, the MTN Foundation and Habitat for Humanity low-cost housing project was launched. The project was aimed at addressing poverty and homelessness through providing simple, decent and affordable houses to low-income earners. The foundation plans to build 600 low-cost housing units in blocks of 100 units in each of the six geo-political zones. Individuals will be able to acquire these houses by obtaining mortgages. The mortgage term is 15 years with the loan interest fixed over the period. One hundred units have been completed in

New Karu, Nasarawa State (North Central). The second and third phases of the project will be in the South East and South West regions.

2.6.1.5 Women's Housing Plan initiative (WHPI): This initiative was created to empower women and families towards owning quality, affordable houses. To make it accessible, the plan is often structured with gradual repayments. WHPI also collaborates with developers and provides them with bulk buyers after negotiation on behalf of its members. The initiative has sites in Lugbe, Kubwa, Gwarinpa and Masaka in Abuja. It is the first organisation to focus on housing for women.

2.6.2 Regulatory Institutions and Key Players in Housing Sector

The real estate and housing sector in Nigeria is regulated primarily by the Federal Ministry of Lands, Housing and Urban Development. A number of professional bodies influence the activities of industry participants through regulations and pronouncements. These include the Nigerian Institution of Estate Surveyors and Valuers (NIESV), Nigerian Institute of Town Planning (NITP), Nigeria Institute of Architects (NIA), Nigerian Institute of Quantity Surveyors (NIQS), Nigerian Society of Engineers (NSE) and Nigerian Institute of Building (NIOB). On the financial side, the CBN and the Securities and Exchange Commission (SEC) are responsible for regulations.

Table 2.2: Key Players in the Nigerian housing finance market

Regulators	Financial Institutions	Developers
Central Bank of Nigeria	Federal Mortgage Bank of Nigeria	Federal Housing Authority
Federal Ministry of Lands, Housing and Urban Development	Primary Mortgage Institutions	36 State Housing Cooperations
		Real Estate Developers
Securities& Exchange Commission	Deposit Money Banks	36 Minisries Of Housing And Urban Development.
		Insurance Companies

Source: Pison Housing Company

2.6.2.1 The Ministry of Lands, Housing, and Urban Development

The Ministry of Lands, Housing and Urban Development (formerly the Ministry of Housing, Urban Development and Environment) was created in 2002 with housing accorded for the first time a separate status free from the bureaucracy and financial stranglehold of the Ministry of Works. The Ministry of Lands, Housing and Urban Development's roles include policy formation, setting standards for the sector, establishing building standards and codes for housing delivery, and safety in collaboration with relevant professional bodies.

2.6.2.2 Central Bank of Nigeria (CBN)

The CBN is the apex regulatory authority of the financial system. It was established by the Central Bank of Nigeria Act of 1958 and commenced operations in July 1959. Among its primary functions, the CBN promotes monetary stability and a sound financial system, and acts as banker and financial adviser to the Federal Government. It is the banker of last resort to licensed banks24 and approves licences to financial institutions, which include Deposit Money Banks, Primary Mortgage Institutions, Microfinance Banks, Finance companies, Bureaus De Change, and Development Finance Institutions.

In 2005, the Federal Government in conjunction with the CBN set up the Financial System Strategy (FSS) 2020 Mortgage committee. Four key objectives were spelt out for the committee:

1. Establish a safe and profitable mortgage market by setting up appropriate infrastructure / institutions / processes and remodeling existing ones.
2. Introduce a framework to strengthen property/security rights.

3. Use the mortgage market to make long-term finance available and affordable to all Nigerians.

4. Enhance market mechanisms to improve the housing delivery system.

Federal Mortgage Bank of Nigeria (FMBN)

- The FMBN is the apex mortgage institution in Nigeria with a broad mandate as follows:
- Link the capital market with the housing markets
- Encourage the emergence and promoting the growth of viable primary mortgage loan originators to serve the needs for housing delivery in Nigeria
- Mobilize domestic and foreign funds into the housing sector

Collect and administer the NHF in accordance with the provisions of the NHF Act

The NHTF, established in 1992, was aimed at addressing housing finance challenges in the low-income sector. It was formulated taking into consideration the housing demand gap and the difficulty of accessing finance through commercial banks and other financial institutions. It was granted a take-off fund of ₦250 million (US$1.7m). Key objectives of the Fund include:

- Ensuring the provision of housing units is based on realistic standards that house owners can afford
- Giving priority to housing programmes designed to benefit the low-income group
- Encouraging every household to own its house through the provision of credit or funding

FMBN lends to PMIs from this fund. The scheme has had little success because the amount raised through contributions is only sufficient to fund loans for a small proportion of those who qualify (see box *National Housing Trust Fund)*. An additional difficulty is the requirement that a loan can only be obtained if the borrower can produce clear title to the property. In practice, therefore, many people do not make contributions and so far only 43,402 loans have been disbursed.

To address these challenges, the FMBN board introduced reforms in February 2010. These provided an increase in the mortgage loan accessible by an individual contributor to a maximum of N15 million ($100,000). They also expanded mortgage loan originators which on-lend NHTF loans to include universal banks, insurance firms, pension funds and microfinance banks, subject to their meeting the criteria and requirements laid down for PMIs and the provisions of their enabling laws and regulatory authorities.

The board also approved the down payment (or equity contribution) for NHTF applicants in the following proportion: N5 million ($33,333) loan and below, 10% equity contribution; loan between N5 million ($33,333) and N10 million ($66,666), 20% equity contribution; while a loan between N10 million and N15 million attracts 30% equity contribution.

2.6.2.3 Securities and Exchange Commission (SEC)

The Securities and Exchange Commission (SEC) is the apex regulatory agency for the Nigerian capital market. Originally established by SEC Decree 29 of 1988, the Commission has evolved over the years with its current enabling law being the

Investment and Securities Act (ISA) 45 of 1999. The Commission is mandated to regulate and develop the capital market.

In 2007, SEC issued the first set of guidelines for the registration and issuance requirements for the operation of the Real Estate Investment and Trusts scheme (REITs) in Nigeria. This guideline is detailed in the Investment and Securities Act (ISA 1999, repealed in 2007). The introduction of REITs will in the long term give investors value-based investment options and provide the needed cheaper, long-term funding to the real estate sector, which will in turn lead to the development of good quality property stock. Nigeria's first REIT was the N2 billion ($US13.3 million) Skye Shelter Fund launched in 2007. However, at the time the fund was issued, the Federal Inland Revenue Service (FIRS) had not given a tax-exempt status to REIT instruments in Nigeria. The second REIT was the Union Homes Hybrid REIT launched in 2008 and promoted by Union Homes Savings and Loans Plc. Even though this REIT was better structured than the Skye Shelter Fund, its N50 billion ($US 333 million) public offer was grossly undersubscribed. The reason could be because the issuance coincided with the crash of the stock market.

2.7 HOUSING DEVELOPMENT FINANCE PROBLEMS IN NIGERIA

Mortgage as an instrument for financing home ownership in Nigeria is still in its infancy as it is just emerging. Not many Nigerians can purchase their houses through mortgage. The gap between income and shelter cost in Nigeria is very wide. This has eliminated the low income earners from the housing market. It would have been expected that incremental housing in Nigeria will be at gross scale since retail bankers mostly lend on a

short-term basis arguing that they have to meet withdrawal requests at the shortest notice. Obviously for them servicing transactions with low profit margins is not worth taking the risk. It is clear that the current state of housing finance in Nigeria require a comprehensive approach by Governments as without adequate will by the State home ownership by low-income groups will remain a distant dream. The production of housing should not be the primary function of the private market, but government should be neck deep in the provision of housing for the citizens particularly the low income group. There is no way a private property developer will build a house for the poor to inhabit considering the very high cost of construction. It is only government that is in the position to build mass housing for the poor because of the resources at its disposal.

The cost of urban land is a big discouragement to the urban poor. Only marginal land, with no title document and infrastructure at the periphery to the cities is available for the poor to build on. Cost of land and documentation account for about half of what is required for housing development. The absence of large real estate development companies with access to the relevant technology and financial muscle to develop affordable houses on mass scale for the urban poor is a drawback to the Nigerian housing finance delivery system.

Access to housing finance in Nigeria is mostly possible to the upper class who through their financial strength can satisfy the conditions necessary to obtain credit. The low class (low income earners) are exempted because of their disadvantaged position in respect to their financial base. How this class of people (low income earner) source for fund and the

challenges they encountered in accessing finance for housing development is yet to be explored.

2.8 SUMMARY OF FINDING FROM THE REVIEW OF LITERATURE

The literature review identified that housing finance must be seen in the national economy and that in solving the housing problems it has to go hand in hand with solving national economic problem. It also discovered that the low income earners are always exempted from housing provided in the housing market because of the issue affordability. How finance for housing development is being accessed and the challenge faced by the urban poor is the gap in knowledge that this research identified. The next chapter will discuss the basic research methods and procedures that guided this study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

3.2 TYPE OF DATA AND SOURCES

This chapter will focus on explaining the basic methodology that guided the study. It will also discuss the research method employed and the type of data that was used in the study. The study made use of qualitative research method to cover the range of the objectives and questions being addressed.

Table 3.1: Finance for Housing Development

S/n	Household heads	Type of data	Sources
1	Various sources of finance for housing development	-Access to formal sources: government (Non-specialized Institutions and Specialized Housing Finance Institutions). Others(Communities, Associations and Nongovernmental Associations) - Access to informal sources: Co-operative system, credit co-operative and family savings. -knowledge of NHTF in your area? -contribution to NHTF	Household questionnaire survey and institutions
2	Requirements to access finance for housing development	- Procedures for accessing loan, - Duration and repayment schedule, -interest rate -loan amount	Household questionnaire survey

Field surveys 2011

3.2 .1 Method of Data Collection

Data for this study were collected through the following methods:

- Personal interview: Primary qualitative data was derived from structured and open ended interviews conducted on key officers of selected public and private institutions. A total of

eight institutions were visited to elicit information on the level of workers' participation in the National Housing Trust Fund (NHTF) and other means of financial support for employees' housing development project.

Institutions visited include Ahmadu Bello University, Zaria, federal college of education, Zaria, National institutes of chemical research technology, Zaria, Savanna research institutes- Federal ministry of Environment, Nigeria leather research institutes, Zaria, Ahmadu Bello University teaching hospital, Zaria, Nuhu Bamalli polytechnics, Zaria.

- Administration of sets of questionnaire: Primary data for this study were obtained by administering prepared questionnaires to selected households within the study area. Information on respondents' attempt at accessing finance for housing development was obtained from selected residential neighbourhoods across Zaria urban area.

  A questionnaire was administered in a building with the household owner chosen as the respondent. In instances where the respondents were not literate in English Language, the questionnaire was translated into Hausa, the local language spoken in the study area.
- Field observation: A reconnaissance survey of the areas delineated for the study was done. The purpose of the reconnaissance survey is to determine the areas of new housing development and for easy administration of questionnaire.

- Secondary data were collected through review of literature comprising of textbooks, journals, technical reports, newspaper publication, internet and unpublished works. Most of these are government publications decrees, FMBN publication amongst others. .

3.2.2 SAMPLING FRAME AND SIZE

A clustered sampling (area sampling) technique was adopted in the selection of the residential neighbourhoods used for this study. The cluster is in three divisions. The first is the of Zaria urban area which is made up of four districts: Zaria walled city, Tundu wada, Sabo Gari, and Samaru. The second is the sub division into residential neighbourhoods. New housing development projects are being undertaken across these districts out of which a total of eight (8) residential neighbourhoods were selected based on the high rate of housing development projects experienced in these neighbourhoods. These are: Hanwa new extension, Graceland-the new settlement behind Nigeria College of Aviation Technology, Zango new extension, Kabama settlement and Juchi waje, Gabari layout, Rafi Sidi and Hayin Danyaro. The understanding is that the eight (8) residential neighbourhoods spread across the Zaria urban area make up the sample area. Therefore the survey of residential area covered eight (8) locations.

Clustered sampling (area sampling) technique was employed to establish the number of households to be surveyed across the eight (8) residential neighbourhoods that make up the sample size. The technique was chosen to overcome the problem of non availability of record on the number of household in the residential area. Ibanga (2006) and Trochim (2006) recommend the use of clustered or area sampling technique where the exact population size is not known in advance and where the population under consideration is dispersed across a wide geographic region as it is the case in this study. Furthermore, the Nigeria Federal office of statistics has utilized the technique in its National Household Surveys. The study also assumed that people of similar characteristics tend to “cluster” or

live together in designated residential areas – what sociologists may refer to as "cultural areas" (Ibanga, 2006).

Random selection method was used in choosing the households to be covered. Households chosen were owner occupier of the houses. Rented houses and uncompleted houses were exempted. In all a total of 300 households were surveyed. This is displayed in table 2 below:

Table 3.2: Questionnaire Administration

S/N	NEIGHBOURHOOD	NUMBER
1	Graceland	70
2	Gabari	50
3	Hanwa new extension	50
4	Zango new extention	35
5	Kabama	30
6	Hayin Danyaro	25
7	Juchi waje	20
8	Rafi sidi	20
	Total	**300**

Source: Field Survey, 2011

The disparity in the number of household selection from each residential neighbourhood was informed by the uneven building development across these neighbourhoods. From field observation, housing development project is highest in Graceland, followed by Gabari layout and Hanwa new extension. Zango new extension, Kabama, Hayin danyaro and Jushi waje follow in that order. Out of the 300 questionnaires, 240 questionnaires were retrieved making a return rate of 80%. Out of the 240 retrieved questionnaires, 180 questionnaires were considered valid after careful coding and weeding. This level of response rate was considered highly significant for the study and thus used for the presentation of data and analysis.

3.3 METHOD OF DATA ANALYSIS

A combination of content analysis of the interviews materials and descriptive statistics were used in data analysis. Data analyses also involved comparing public and private financial arrangement, determining the adequacy of credit facilities for housing development as well as assessing the challenges of other sources of finance. Frequency tables and percentages were used to explain the results of the study.

3.4 SUMMARY OF CHAPTER THREE

This chapter has briefly explained the basic research methodology used in the study. It focuses on describing how the various variables like households, institutions etc were derived. The next chapter will dwell on data analysis and presentation of results.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUTION

This chapter provides answers to the research questions raised in the study by comparing public and private financial arrangement, determining the adequacy of credit facilities for housing development as well as assessing the challenges of other sources of finance.

4.2 SOURCES OF FINANCE FOR HOUSING DEVELOPMENT BY THE RESPONDENTS

4.2.1 Access to Finance for Housing Development

One of the major objectives of the study is to establish access to finance for housing development. To establish the access, the sources utilized were generated. The result obtained is shown in Table 4.1. The finding indicates that non conventional (informal) sources account for one of the major sources for housing development in the study area as about 49 (27%) of the total population of the respondents sourced fund through cooperative societies and combined personal income. 12 (7%) combined cooperative loan and bank loan. Around 25 (14%) borrowed twice from the cooperative societies to complete their housing project, while 79 (44%) of the respondents build through personal income/savings Information retrieved from questionnaire indicate that those who build with their personal income saved through monthly or quarterly deduction from their income while others engaged in rotational financial contributions (savings) with friends or colleagues on yearly bases and later invest the money received into building their housing project.

Table 4.1: Source of Finance for Housing Development in the Study Area

Source finance	Number	Percentage (%)
Personal income/savings	79	44
Cooperative loan and personal income	49	27
Cooperative loan and bank loan	12	7
Cooperative loan twice	25	14
Inherited	8	4
NHTF	7	4
Total	180	100

Source; Field survey 2011

NHTF as source of finance for housing development in the study area is very low as only 7 persons were successful in accessing the fund in the study area. 8 (4%) inherited the houses they lived in.

4.2.2 Contribution of Personal Income and Savings to housing development

Table 4.1 shows; personal savings is the single most important source of fund for housing development in the study area as 44% of the respondents build their houses with their personal savings. The majority of them are employed in the civil service. Table 4.2 indicates that the income level of these groups is more than ₦40000 per month. It therefore confirmed that ability to save is tied to high income. The implication of this is that majority of the respondents that are able to build houses in the study area are high income earners and civil servants. This view is supported by Nenadi, (2011) which revealed that higher income encourages savings as most household in Nigeria have fewer savings because a lot of what is gotten as income is used for consumption.

Table 4.2: Building Through Personal Income

Source of fund	Income (N)	Number	Percentage (%)
Personal income/savings	10000 and less	7	9
Personal income/savings	10001-20000	8	10
Personal income/savings	20001-30000	6	8
Personal income/savings	30001-40000	6	8
Personal income/savings	40001-50000	15	19
Personal income/savings	50001-100000	17	22
Personal income/savings	100000 and above	20	23
Total		79	100

Field survey 2011

This is the major source of finance for housing in the study area. It is also the most preferred option though it may take a longer time to complete building projects. The interest rate of financial institutions is too high for most individuals and government finance is not readily accessible.

4.2.3 Impact of Educational Attainment on Source of Income and Housing Development

The distribution of educational level (Table 4.3) also revealed that 115(64%) respondents have attained higher education, followed by 45(25%) respondents who have attained secondary education. More so, 15(8%) respondents indicated that they have not attained any level of education while the rest 5(3%) respondents indicated attaining primary education. The implication of these results is that those who can easily comprehend the mechanism of mortgage lending are in the majority especially those with higher and modern school qualifications. This is good for the mortgage industry if adequate awareness is created.

Table 4.3 Educational Attainment/Income Level

Education Level	Income range (N)	Number	Percentage (%)
Primary school	10000 and less - 30000	5	3
Total		5	3
Secondary school	10000 and less - 30000	25	14
	30001- 50000	15	8
	50001- 100000 and above	5	3
Total		45	25
Higher institutions	10000 and less - 30000	16	9
	30001- 50000	29	16
	50001- 100000 and above	70	39
Total		115	64
None	10000 and less - 30000	10	6
	30001- 50000	5	3
Total		15	9
Grand Total		180	100

Source: Field survey 2011

When compared with the level of income, the result further reveals that those with tertiary education have the highest number of personal houses. This could be traceable to the presence of many institutions in the study area. From the study (as presented in Table 4.3) it was also observed that those with the highest level of income are those with the highest level of education. That is the income range of ₦30001-50000(16 %) and ₦50001- and above ₦100000 (39%).This agrees with studies carried out by Mundi, (2002), Laah (2003) which revealed a strong correlation between education and level of income. Respondents with low level of education are mostly in all kinds of informal jobs that have low and unstable income.

4.3 REQUIREMENTS AND PROCESSES FOR ACCESSING COOPERATIVE LOAN, BANK LOAN AND NHTF

4.3.1 Procedures to accessing finance for housing development

An examination of conditions for accessing finance for housing development was done within the study area. Table 4.4 summarise the requirements for accessing loan facilities from commercial banks, cooperative societies and NHTF. The conditions identified are only applicable to those whose source of income come from salary/wage, business and also self employed persons.

The conditions attached to accessing loan for housing development by private financial institutions as presented on Table 4.4 denies low income earners access to credit. There are instances when employers have refused to guarantee employees for loan even when they satisfy other requirement. The issue of 2.5% down payment for commercial banks and 10% down payment for NHTF is great challenge to low income earners who often finds it difficult to raise such money. Another challenge is the one that is associated with requiring a loan seeker to present a certified land as condition for loan.

The conditions for accessing loan from cooperative societies differ from those of commercial banks and NHTF. What most of the cooperatives demand is simply to be a registered and contributing member with two or three sureties who must be members of the cooperatives before application for loan can be considered. So loan from cooperatives are easily accessible than the other sources.

Table 4.4: Requirement for Accessing Loan from Institutions

Bank	Cooperative societies	NHTF
Domiciliation of salary account with the bank supplying funds. A guarantor which must be the employer of the loan seeker. 3) 2.5% down payment the cost of the house desired. 4) Evidence of ownership of a certify land in a good location for building project loan and approved building plan for outright purchase of building. 5) Collateral, security for self employed persons.	Registration as member for at least six months before being considered for loan. Be a contributor to the cooperative consistently for at least six months Sureties or guarantors who must be members and whose account with the cooperative is above the sum intended. The intended guarantors cannot stand in for more than two loan seekers.	1. Land ownership with transferable title. (Original for sighting and a copy) Note: Allocation paper is not acceptable. NHTF loan cannot be obtained to buy land. 2. Be a contributor to NHTF for at least the past six (6) months. 3. Open a Home Ownership Account and build up equity contribution (down payment) to the funding of the project. Proportion: N5 million loan and below, 10% equity contribution; loan between N5 million and N10 million, 20% equity contribution; while a loan between N10 million and N15 million attracts 30% equity contribution. Approved Building Plan (Original and 2 copies). Priced Bill of Quantities from Quality Surveyor for new construction and estimate of works to complete the house for a building under construction. If self employed, submit the following: - Company's Profile - Company's bank account statement for the past 3 years -Three years audited accounts of the company. 7. Loan is granted based on contributor's ability to pay off within 30 percent of his monthly income.

Source: Field Survey 2011

4.3.2 Amount given as loan for housing development

The amount of loan that can be accessed from the various institutions is displayed in Table 4.5 Loan advanced through cooperative societies shows that 63 persons burrowed ₦500000, 11 got ₦1000000. With this amount it is practically impossible to build a

house with the increasing cost of building materials and labour. For commercial banks 2 persons got ₦500000, 7 persons were able to accessed ₦1000000 while the remaining got between ₦2000000-₦3000000. Bank loan is tied to income of the individual. As such income determines the amount that can be given out. Those with high income are considered for high amount of loan. This also mean that those with low income will not be able to access loan from these institutions.

Table 4.5: Loan Advanced to Respondents

Amount (N)	Bank	Cooperatives	NHTF
500000-1000000	2	63	-
1000001-2000000	7	11	-
2000001-3000000	4	5	-
3000001-4000000	2	-	-
4000001-5000000	-	-	7
Total	14	79	7

Source: Field Survey 2011

4.3.3 Interest Charge on Loan by Financial Institutions

Interest rates charged by commercial banks are on the higher side and as such the cost of loan is very high as well. The interest charged by cooperative societies is always low since most of them are established to cater for the welfare of their members. Observation from Table 4.6 shows that while commercial banks charged 17%-23% on loan, cooperative societies and NHTF is between 5%-10%. This is one of the reasons why the low income earners within the study area patronize the cooperatives societies for loan as the conditions and requirements are conducive for them.

Table 4.6: Interest Charged

Bank	Cooperatives	NHTF
N500000- 17% N1000000-N3000000-17%-20%	N500000- 5%-10% N1000000-N3000000-10%	6% on the loan sum

Source: Field Survey 2011

4.3.4 Duration and repayment schedule of loan

Duration and repayment schedule of loan as presented on Table 4.7 indicates that cooperative societies give the shortest duration of payment. This is due to their poor financial base as finance for most of the cooperatives are sourced from members' contributions. The need to retrieve and recirculate the loan given out is another reason for the short duration of repayment. In principle, commercial banks have always stated that the tenor of their credit last till 20 years but there are a lot of cases where loan seekers have been denied the enjoyment of repayment for 20 years.

Table 4.7: Duration and Repayment Schedule

Bank	Cooperatives	NHTF
N500000- 2years-3years N1000000-N3000000= No response	N500000= 2years-3years N1000000= 3years-years N2000000= Above 4years All repayment schedules are monthly. Interest is deducted from loan before it is given	30 years maximum. All repayment schedule are monthly

Source: Field Survey 2011

4.4 CHALLENGES OF THE VARIOUS SOURCES AND IMPLICATIONS FOR HOUSING DEVELOPMENT

4.4.1 Personal income/savings

4.4.1.1 Delay in Completion of Buildings

Observation from table 4.8 indicates that 44% of the respondents spend between 1-10years in building their personal houses. This is as a result of the financial demand on

building personal houses which made many respondents to resort into second borrowing, using personal income which is mostly difficult because of the lean financial base. The delay in the completion time also mean additional cost will be incurred as the cost of building materials continue to increase in the market. The implication of this is that many of the respondents moved into their buildings uncompleted while others have to wait longer.

Table 4.8: Duration in Building

Duration of building	Number	Percentage (%)
1-10 years	86	48
11-20 years	80	44
Above 20 years	14	8
Total	180	100

Field survey 2011

4.4.1.2 Low income

The distribution of respondents on cooperative loan indicated that majority of those that build through cooperative loan are those who are either in business or self employed with income level between ₦10000 and less, ₦10001-20000 and ₦20001-30000 (Table 4.9). This revealed that those with low income find it difficult to build through personal savings. The conditions of accessing loan through the cooperative societies are moderate and friendly and that is the reason for the high patronage of these societies by these groups. What is needed to obtain loan from most of these cooperatives societies is to be a member, get two or three sureties who can certify the client depending on the amount one wish to borrow. The reason for this is that cooperative members are usually closely associated. It may be those working in the same organization or those involved in the

same registered trade or those living in the same neighbourhood who knows each other very well. The interest rates charged on these loans are moderate (Table 4.6) since most of the cooperatives societies are established for the welfare of their members. It therefore suggests that the lower income earner can build if there is adequate financial assistance. This is an area government can come in to assist in the ensuring that access to finance for housing development to the low income earners is made friendly.

Table 4.9: Income Level of Respondents

Income level(N)	Number	Percentage (%)
10000 and less	16	8.9
10001-20000	31	17.2
20001-30000	19	10.6
30001-40000	14	7.8
40001-50000	30	16.7
50001-100000	38	21.1
100001 and above	32	17.8
Total	180	100

Field survey 2011

4.4.2 Cooperative Loan

4.4.2.1 Inadequacy of Loan

The loans obtained by many of the respondents through the cooperative societies are grossly inadequate to erect a decent accommodation. Observation from Table 4.5 indicates majority of the loans given out is between five hundred thousand naira (₦500000) to one million naira (₦1000000).

Table 4.10: Cost of Building

Housing Types	Average Cost
One-bedroom bungalow	₦2.0m
Two-bedroom bungalow	₦3.5m
Three-bedroom bungalow	₦4.0m
Four-bedroom bungalow	₦5.0m

Field survey 2011

According Dong and Mallon (2010) the cost of building a single bungalow is two million five hundred thousand naira (₦2, 500000). At the time of carrying out this study the average cost of four (4) housing types was established through field survey, the result is presented on Table 4.10. Considering the income level of majority of the respondents' as presented on Table 4.9 couple with high cost of building materials and labour it is difficult for majority of them to own their personal houses through the loan obtained from cooperatives. To source for the balance of the cost of building, many of the respondents (table 4.1) within these groups go for second loan and this is after the initial loan has been paid. Some resorted to savings from their personal income even when it is not convenient. These steps prolonged the number of years spent in building and cause hardship to the family as a large portion of their income is spent on accommodation.

4.4.2.2 Uses of Multiple Sources of Loan

Table 4.11 reveals that 57% of households who sought for additional finance to complete their homes combined cooperative loan and personal income. 28% of the respondents went back to the cooperative societies for second loan and this is after the first loan must have been paid. While 15% used bank loan and cooperative loan. The reason for this is

because of the inadequacy of the loan from cooperative societies. The implication of this is the delay in the completion of the building projects and uncompleted buildings.

Table 4.11: Source of Additional Finance for Housing Development

Additional finance	Number	Percentage (%)
Cooperative loan and personal income	45	57
Cooperative loan and bank loan	12	15
Cooperative loan twice	22	28
Total	**79**	**100**

Field survey 2011

4.4.3 Commercial banks

4.4.3.1 High Interest Charged on Loan

The high interest rate charge on bank loans as table 4.6 shows, as compared to the cooperatives societies may have informed the reason for the large number of respondents that patronized the cooperative societies. And as observed earlier others resorted to the use of their income with the implication of delay in completion of building and other inconveniencies. The government can learn from the way the cooperative societies are being structured thereby bridging informal housing finance arrangement with formal finance mechanism. Since majority of the people obtain loan for housing development from informal arrangement they can be linked to formal housing finance mechanism.

4.4.3.2 Short Repayment Time

From the requirement in table 4.7 commercial banks gives short term loan to prospective borrowers. Housing development is capital intensive in nature and as such need long term loan with sufficient capital. With the high interest rate and short repayment time not many were able to bear such burden and thereby the low patronage of commercial banks

for loan. Although most banks ceiled their repayment period at 20years it is hardly observed as customers are made to between 2 to 5years depending on the amount.

4.4.3.3 Lengthy procedure

The conditions attached to accessing loan for housing project by commercial banks as shown in Table 4.4 have made many of the respondents not to seek finance from the banks. The issue of 2.5% down payment is great challenge to low income earners who often finds it difficult to raise such money. The requirement that a loan seeker should present a certified land as condition for housing development loan is also a challenge that many cannot satisfy. Many time employers have refused to guarantee their employees seeking for loan even if all other conditions are met.

4.4.4 NHTF

4.4.4.1 Awareness and contribution to NHTF in the Study Area

Table 4.12: Awareness of NHTF

NHTF (awareness)	Number	Percentage (%)
Aware	71	39
Not aware.	109	61
Total	**180**	**100**

Source; Field survey 2011

Of the 71 respondents that are aware of the scheme only 24 of them applied for the fund out of which only an insignificant number, 7 persons were successful (table 4.1). The reason for this low number is due to the low level of awareness of the scheme as majority of the respondents claimed that they heard of the scheme for the first time through this

study while those who attempted to access the fund complained of delay and tough conditions to satisfy before getting the loan.

4.4.4.2 Weak Affordability for Loan Repayment

Apart from low level of awareness of the NHTF, It is only one third of the monthly income of contributors that can serve as the monthly loan repayment. A contributor is only eligible to a loan amount which is not more one third of his income. From the Table 4.9 it shows that majority of the respondents will not be able to afford the loan. Relating the income grade in Table 4.9 to the average cost of construction of various building as presented in Table 4.10 in view of the requirements of NHTF that only one third of the basic income of contributors can be used to grant loan indicates that many within the income range of ₦10000-20001, ₦20001 -30000 will not be eligible to a loan to the tune of ₦1.5million. Only those on the income range of ₦40000-50001, ₦50000-10001 and above ₦100000 and that will take long period of repayment. It implies that majority of contributors lack capacity to afford loan amount that can acquire houses for them as a result of low income.

4.4.4.3 Lengthy Procedures for Accessing NHTF Loan

The study indicates from table 4.1 that only few people (4 %) were able to access loan from the NHTF. This number falls short of the objectives of the NHTF of assisting Nigerians to own their personal houses. From the responses (table4.1) it shows that majority of the respondents are not aware of the NHTF so they are not contributors to the scheme. As such, they cannot access loan from the fund. Those who claimed to be aware (table4.13) of the NHTF either say they are not interested in the programme or that the procedure of accessing the loan is too cumbersome therefore they are not interested.

Some even objected that because they are not civil servants insinuating that the scheme is meant for government workers alone. The interview conducted with some staff of the public and private institutions within the study area also revealed that majority of the workers are not contributing to the scheme. Many reasons were put forward for this situation: some complaint of not able to assess the fund after contributing for a long time. Some raised the issue of the requirements to be fulfilled before getting the fund, that is too demanding while others observed that it is only those in the top management of their establishment that are always successful in accessing the fund. For those who were able to assess the fund, the long time spent waiting for the fund is not encouraging. The difficulty experienced by these workers is corroborated in the low success achieved by the scheme nationwide since its inception.

Table 4.13: Respondents Experience when Accessing NHTF

Access	Number	Percentage (%)
Difficult to access	48	67.6
Applied but still waiting	16	22.5
Successful but time wasting	5	7
Successful with less difficulty	2	2.8
Total	**71**	**100**

Field survey 2011

4.4.4.4 High Equity Contribution (Down Payment)

The requirement (table4.4) that prospective borrower should pay equity contribution (down payment) is a barrier to accessing loan through NHTF. Not many within the loan income group will be able to save that amount considering their income.

4.5 SUMMARY

This has provided answers to the research questions raised in this study. Finding suggests that the sources of finance for housing development are through personal income/savings, cooperative societies, commercial banks and NHTF. The procedure of accessing loan for development is popular with the cooperative societies because of friendly requirements as compared to commercial banks and NHTF.

The challenges of the various sources were also identified in this chapter. Having completed the assessment of access to finance for housing development, the next chapter will now briefly summarise the findings, make recommendations and draw the major conclusions of the study.

CHAPTER FIVE

SUMMARY OF FINDINGS AND RECOMMENDATION

5.1 INTRODUCTION

This is the last chapter of this study. The chapter attempts to give a concise summary of the entire study and the conclusions that can be drawn from the study findings.

5.2 SUMMARY OF FINDINGS

Personal income/savings account for the highest source of housing finance in the study area. Majority of those who used personal income/savings to build their houses are civil servants, this is due to the presence of many public institutions in the area. It is also discovered that the income level these people is above ₦40000. Although using this means to build has its own challenge of delay in the completion of housing projects as many years is spent accumulating fund on piecemeal basis. Loan from cooperative societies is the second highest source of finance for housing development. They receive more patronage from the low income earners. Commercial banks and NHTF experienced the least patronage as sources of housing finance.

The requirements for accessing loan through the various sources available shows that cooperative loan is more accessible and affordable among the low income earner which form the bulk of people without decent accommodation. The procedures and processes of accessing loan through the cooperative societies is less cumbersome as compared to the commercial banks and NHTF with requirements that are difficult to meet.

Affordability analysis based on the income range of those who earn ₦10000 - ₦30000 monthly shows that is nearly impossible for them to save personally or access loan that will help them build their personal houses. The cost of building a single one bedroom as established in the study is ₦2million and it is doubtful if those in the income range mentioned above afford this amount even if the save all their monthly income.

The awareness of the NHTF among Nigerians is still very low. Majority of the respondents did not know anything about the scheme which is a true reflection of what is obtainable in other parts of the country. Those who are aware of the scheme do not really have indepth understanding of the scheme. Others show no interest because of the tedious nature of it procedures, and for some it was the number of years spent in waiting before the loan can be accessed that is a challenge. The condition that contributors present a land (backed by C 0f O is a serious impediment to accessing the loan as the procedure of obtaining a C of O as contained in the Land Use Act of 1978 is too cumbersome. Also the issue of the 10% down payment of the entire loan is a challenge.

Building through cooperative loan is more convenient for majority of the respondents as observed from the study. This is more popular among the low income earners because of the obvious reasons of easy accessibility of the loan, friendly and convenient requirements and repayment arrangements.

The cooperative loan taken by most of the respondents is usually not enough to complete their buildings projects. These groups spend their income (in addition to borrowed funds from co-operatives societies) to build their homes. This building process is usually very slow, and incremental in nature, sometimes over a life time

Longs years spent in building is as a result of inadequate finance which make majority of the respondents to go for second loan after the initial loan has been paid. Those who build through personal income also spent years saving before they complete their building. Those that build through personal income are discovered to be those with higher income and usually do not go for loan.

The lending rates charge by private commercial banks is very high at 23% alongside other charges when compared with the income of lenders. Other conditions attached to obtaining loan are too stringent for many of the respondents.

5.3 RECOMMENDATIONS

It is quite obvious that accessibility level to housing finance by the low income earners is still very low. Cooperative societies have provided loan to a substantial number of these people helping them to own their personal houses but the fund obtained from cooperative societies for housing are often insufficient. Improving access to housing finance therefore will enhance the chances of the low income earners in putting up houses that suit their economic status and also meet their needs. Policies and programmes of government should be aimed at the low income segment focusing on assisting them to acquire, build or improve their homes through easy accessibility to land and securing of title documents. Government should also provide mechanism for regulation of lending rates in the private sector so that low income earners will get access to cheap credit for home acquisition.

Majority relies on co-operative societies to build their personal homes where government and the organized private sector have failed. These co-operatives have applied peer

pressure to enhance loan recovery since members of the group live within the same community and share a communal life. Their emergence is partly because of the poor economic situation of the country. The co-operatives are engaged in land acquisition, processing land title documents and acquiring building materials for their members. The co-operatives facilitate house ownership for their members by giving them housing loans. However, the scale of their delivery is minimal compared to the target market. Government should intervene and complete the mortgage sector reforms and provide incentives that will expand the scope of delivery of the cooperatives. There is also the need for further study on the area of bridging informal housing finance arrangement with formal finance mechanism. Since majority of the low income earners in Nigeria acquire personal homes through informal arrangements. This can be improve if they are linked to a formal housing finance mechanism.

There is the need for government to embark on aggressive publicity of the NHTF so as to make it known to all Nigerian thereby correcting some of the misconception on the programme that it is for civil servants. The way the new pension scheme was given wide and door -to -door publicity so also the public should be educated about this programme and also ensure that all categories of people are covered. The self employed, the business men/women, farmers etc should be aware of how they can benefit from the loan in building their personal houses. Also the procedures and requirements for accessing the loan should be simplified so as to reduce the long years spent in waiting to get the loan.

Alternative financing products which improve access to affordable housing finance, will help to build and maintain the nation's housing stock and improve the livelihood of 80% of the population currently living in slums and dilapidated structures. Examples are the

integrated housing development approach as experienced in other emerging markets, which covers a broader section of the value chain than typical housing finance initiatives do, and can greatly improve the probability of home ownership for the poor. This model allow households to use their home not just as a financial asset but also as an economical asset which provides shelter, enhances income generation opportunities and creates wealth over time. As borrowers pay off their loans, the home becomes not just a shelter for sustaining livelihoods but also a medium for establishing home based micro enterprise or a means of offering accommodation for rent.

Another is the Housing microfinance, which is an interesting innovation appropriate for the Nigerian market. It functions by providing small, short-term loans to match step-by-step housing construction that the lower-income segment can afford. Technical support ensures that people get the best possible housing for their investments. Examples is of such largest lender is the Grameen Bank in Bangladesh, which has lent for shelter development to over 300,000 of its members.

Further cases of using the housing microfinance instruments include Mexico and South Africa and there are great lessons to be learnt on how these have improved the lives of the people in the low-income sector. With a population of over 70 million low-income people and an almost non-existent mortgage market, the opportunity for a housing microfinance business model is evident. Both the public and private sectors should look critically at deploying housing microfinance in Nigeria. Interestingly, recent information from the CBN shows that the Microfinance policy in Nigeria is being restructured to allow full-scale housing microfinance business models

5.4 CONCLUSIONS

The study discovered that while some intending house owners were able to access finance for their desired accommodation, larger percentages of people especially the low-income earners either had partial access or did not have access to finance, thus inhibiting their meeting this basic human need. The NHTF scheme, in spite of the money it has collected from workers so far, has been unsuccessful in rising to the challenge of providing housing finance for Nigerian workers. The scheme is burdened with loopholes that have rendered it ineffective in assuaging the housing needs of workers. A major challenge is that the maximum amount the fund can approve was calculated on the basis of low-income housing but unfortunately there is either insufficient stock available in that price range or the units are simply not affordable.

The Federal Government should mobilize the relevant agencies and parastatals to make available incentives, such as land use reforms, subsidies, building materials, cost reduction programs, and tax exemption for private housing developers that will ensure increased housing delivery in the appropriate price bracket.

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Appendix

DEPARTMENT OF URBAN AND REGIONAL PLANNING, FACULTY OF ENVIRONMENTAL DESIGN, AHMADU BELLO UNIVERSITY, ZARIA

Housing Finance Questionnaires.

ASSESSMENT OF ACCESS TO FINANCE FOR HOUSING DEVELOPMENT IN ZARIA URBAN AREA.

Sir/Madam,

QUESTIONNAIRE 1

Introduction: This survey is part of an academic research to evaluate access to finance for housing development in Zaria. Your response will be treated with utmost confidentiality and used primarily for the purpose of this study. Thank You.

SECTION A: DEMOGRAPHIC DATA

1. Address:
2. Ethnicity (i) Hausa (ii) Yoruba (iii) Igbo (iv)Other (specify)
3. Gender Male ( ) Female ( )
4. Marital status: Married ( ) Single ( ) Divorce ( )

20-30years, 30-40years, 40-50years, 50 above

6. Educational Level

(i) Primary education (ii) Secondary education (iii) Higher institution (iv) None

SECTION B: OCCUPATION AND SOURCES OF INCOME

6. Occupation: (i) Civil servant (ii) Business (iii) Farming (iv) Self employed (v) Others
7. Office Address:
8. What is your income per month?

10,000 or less ( ) 10,001-20,000( ) 20,001-30,000( ) 30,001-40,000( ) 40,001-50,000( ) 50,001- 100,000( ) over 100,000( )

SECTION C: SOURCE OF FUND FOR HOUSING DEVELOPMENT

Type of house: (i). Single detached (ii) Semi detached (iii) Multiple row (iv) Bungalow (v)Traditional Concept.

10. How did you source for finance to build the house?

(i)Personal savings (ii) Co-operative loan (iii) Donation (iv) Loan from National Housing Trust Fund. (v) Inherited (vi) Others

11. How did you save, if you used personal savings to build the house?

(i) daily savings (ii) monthly savings (iii) contributions (iv) yearly savings

12. If it is co-operative loan, how much did you borrow?
……..

13. What is/was the repayment period? (i) Monthly deduction (ii) Annually (iii) Other (specify)

14. How much are you required to pay to contribute to the co-operative before you can be qualify for loan? …….

15. What is the name of the co-operative society you belong to?
……

16. How many years have you spend as a member?
……

17. What collateral is required to quality for the loan?
……..

18. What is the interest charge?
…….

19. What is the duration of payment
…….

20. Is the duration given for repayment convenient? Yes ( ) No ( )

b. If no, how did you make the payment? ……

21. How long did it take you to finish building the house?

……

22. How much is the total cost of building the house?

……...

23. Is the loan sufficient for you to complete the house? Yes ( ) No ( )

b. If no, how did you source for extra fund to complete the house?

……

24. Which type of materials did you use to build (i) local materials ( ) (ii) modern materials ( )

25. If you bought the house how did source for fund (i) co-operative/Loan (ii) personal saving (iii) NHTF (iv) other (specify).

26. Are you aware of the National Housing Trust Fund? Yes ( ) No ( )

27. If yes, have you made any attempt to access the fund? Yes ( ) No ( )

If yes, what is your experience?

If No, why

…….

…….

28. Have you ever approach a bank to borrow money for building your house?

Yes ( ) No ( )

If yes, were you required to provide collateral Yes ( ) No ( )

29. If yes, what form of security or collateral did you provide for the loan

……

30. Was there any interest/fee charge on the loan? Yes ( ) No ( )

31. Did you have any problem repaying the loan? Yes ( ) No ( ).

If yes, what were the problems?

……

……