EVALUATION OF THE CONTRIBUTION OF NATIONAL HOUSING FUND SCHEME TOWARDS HOUSING DELIVERY IN NIGERIA

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Abstract

One of the three most important basic needs of mankind which has not been adequate for the citizenry right from the independence in 1960 till date is Housing. Finance has been fingered as one of the predicaments towards its actualization because housing provision requires huge capital outlay. The National Housing Fund (NHF) scheme was considered relative to the number of contributors, accessibility of the fund when required and how it has affected the provision of housing in Nigeria. Data for this work were obtained from the Federal Mortgage Bank of Nigeria (FMBN) which is the apex bank for mortgage institutions. The study revealed that few mortgagors have benefitted from the scheme, funds are locked up without disbursing adequate amount to the contributors as there is wide gap between the amount that mortgagors actually applied for and the amount so approved for the provision of housing in Nigeria. The paper recommended that contributors should be allowed to benefit from NHF scheme, while funds locked up should be adequately disbursed to the loan applicants by ensuring that there is reduction in the wide margin between amount applied for and the amount so approved to allow for effective utilization of the fund.

Keywords: Housing, Mortgagors, National Housing Fund, Nigeria, Primary Mortgage Institutions.

Introduction

More than it is always recognized; the housing sector plays a more critical role in a country's welfare as it affects not only the well-being of the citizenry, but also the performance of other sectors of the economy. Nubi (2000) noted that among other things, housing is one of the three basic needs of mankind while other things are food and clothing. Secondly, housing is a very important consumer item, which impacts positively on productivity – as a decent house significantly increases workers health and well-being and consequently growth. Thirdly, it is one of the indices for measuring the standard of living of people across societies.

It is worth mentioning that Nigeria with a population of about 140 million from about 250 ethnic groups (United Nations, 2008) still suffers from inadequate housing provision since independence in 1960. Adequate housing provision has since the early 1970's consequently engaged the attention of the country for a number of reasons highlighted above. Nigeria is not left in this problem alone; other developing countries are also involved. Ojo, Adeyemi and Fagbenle (2006) opined that shelter has been acknowledged as one of the basic needs of humanity. It was therefore not surprising when the United Nations launched an aggressive campaign through the government of Nations on the need to provide shelter for all. The slogan, housing for all by year 2000 was carried far and wide in all countries of the world including Nigeria.

The attention on finance has been prominent because housing requires huge capital outlay, which is even beyond the capacity of the medium/low income groups. It is in recognition of the critical importance of finance in housing delivery that warrants the setting up of Primary Mortgage institutions to facilitate the delivery, being the sole intermediary between Federal Mortgage Bank of Nigeria, FMBN and the mortgagors in disbursing the proceeds of National Housing Fund, NHF.

Literature Review

Housing Requirement of Nigerians

The National Rolling Plan report (NRP – 1996 to 1998) revealed that about 5 million and 3.2 million new housing units were required to meet the immediate and future needs respectively for the year 2000 (Ajanlekoko, 2002). This according to Adedokun (2006) means that approximately 2 million housing units would be needed yearly and by extrapolation about 18 million housing units are required to meet the need by the end of year 2005 at an average of seven (7) persons per dwelling unit of three (3) bedrooms (Ogunsemi and Abiola-Falemu, 2006). Based on the aforementioned, it means the housing requirement by the end of year 2010 would be 20 million.

Review of the state of National Housing Fund Scheme

Adedokun (2006) stressed that the poor and the middle-income group are the immediate sufferers of the housing problem, while Ogunsemi and Abiola-Falemu (2006) categorically affirmed that about 70% of the Nigerian population are very poor and are either homeless or live in shanties and batchers. Some 40% spends about 35% of their income on rent, which is about 16% higher than the recommendations of United Nation of 20% (Ogunsemi and Abiola-Falemu, 2006) and Onibokun (1986) says rent in major cities of Nigeria is also about 60% of an average workers disposable income. Also this almost triples the requirement of United Nation which ranges between 20 – 30%.

Abiodun (1999) opines that National Housing Fund collected about 4 billion naira from the mandatory saving scheme and out of which 300 million naira loan was approved by FMBN, only 100 million was advanced. He therefore concluded that the problem is not availability of fund but stringent measures to prevent default which makes the housing problems to persist.

Evaluation of National Housing Fund (NHF)

The National Housing Fund (NHF) was established subsequent to the promulgation of national Housing fund Decree No 3 of 1992 as a mandatory scheme to mobilize cheap and long term funds for housing credits. The fund represented the financial component of the National Housing Policy, which was adopted in 1991.

The NHF is aimed at encouraging a multiplication of housing finance institutions, enhancing mobilization and growth of long-term funds and making loans affordable to more borrowers. Other objectives of the fund according to the enabling decree include:

i. Ensuring constant supply of loans to Nigerians for the purpose of building, purchasing and improvement of residential houses.
ii. Providing incentives for the capital market to invest in property development of specific programmes that would ensure effective financing of housing development and
iii. To provide long-term loans to mortgage institutions for on-lending to contributors of the fund.

It is also expected to insulate the housing finance system from the fluctuations that had characterized its past reliance on government intervention. This is consistent with the practice in other countries especially, as sustainable housing finance operations require mobilization of private sector. Generally, the strategies for effective mobilization of funds for housing finance in Nigeria had evolved around three areas which include:

i. Voluntary schemes
ii. Mandatory schemes
iii. Government budgetary allocation and financial transfers.

On the other hand, the National Housing Fund scheme provides a relatively cheap source of funds with a fixed interest rate of 9% per annum and a maximum tenure of 30 years; which stand the reason why NHF should rightly be the main source of fund for housing development in Nigeria to effectively solve the current dearth of housing stock as noted in Adedokun (2006).

General concept of mortgage finance

Ogunsemi and Abiola-Falemu (2005) defined mortgage financing as a specialized type of credit transactions involving the granting of long-term finance for housing development. The mortgage institutions in Nigeria include:

i. The Federal Mortgage of Bank of Nigeria (FMBN), which is the apex mortgage bank under the supervision of Central Bank of Nigeria.
ii. Commercial and Merchant Banks, Insurance companies and the National Housing Fund.
iii. Primary Mortgage Institutions which include: building societies, building corporative and privately owned banks.
iv. State Housing Corporations

Primary mortgage institutions

Primary Mortgage Institutions (PMIs) are financial intermediaries in the housing finance sector, having distinct legal character as defined in the enabling decree. Primary Mortgage Institutions in Nigeria today are registered companies operating in accordance with the provisions of the affirmation licensed by the FMBN. The promulgation of the Mortgage Institutions decree No 53 of 1989 provided the regulatory framework for the establishment and operation of PMIs by private entrepreneurs.

The FMBN under the decree became the apex institution, which regulates PMIs and was empowered to license the PMIs as second-tier housing finance institutions. The PMIs, under the decree were to mobilize savings from the public and grant housing loans to individuals, while FMBN mobilizes capital to enhance private sector participation in housing finance.

Trend of Existence of PMIs

As a matter of fact, about 280 PMIs having complied with minimum requirements stipulated for licensing were registered immediately after the promulgation of the decree (Sanusi, 2003). However, many of these PMIs have collapsed shortly after commencing operation mainly because of wide spread distress in the financial sector at that time, a trend that affected also commercial and merchant banks.

Adamu (2004) opined that only forty six (46) were presently operating, classified fit and capable by the FMBN to assess the NHF. The PMIs were mainly located in major cities across the country with majority in Lagos and Abuja is generally small in size with a capital base of about 12 billion naira except a few.

An account of PMIs, as given by Ogunsemi and Abiola-Falemu (2006), who were qualified to assess NHF as at 2002 were 60 in all with Lagos alone having 35 and Abuja with 4 while other states of the federation have less than that of Abuja while as at 2006, just only 32 were remaining among 18 participating states (Adedokun, 2006).

Hindrances to PMI's active involvement in the operation of the scheme

Ogunsemi and Abiola-Falemu (2006) reiterated that many of the PMI's were confronted with hindrances standing in their way of active participation and these hindrances as was found in Adedokun (2006) evolved from the disbursement process, terms and condition to be met which are cumbersome and tend to inhibit early approval and subsequent disbursement. Among these hindrances are:

i. The method of application and its financial requirements. Applications for loan as spelt out under the terms and conditions for obtaining loans (FMBN, 2006) are required to be made on a prescribed form with a non-refundable fee of =N=200.00 for each application. Each PMI is required to print these application forms for sales to applicant for not more than =N=200.00. The implication of this is that PMI will submit application form with a non-refundable fee of =N=200.00 to FMBN. Yet the instruction is that no PMI should charge more than =N=200.00 from the applicant. How then can the PMI recoup its administrative and printing expenses?
ii. The terms and condition also stipulate that the board of the PMI's shall pass resolution to borrow each loan amount from the fund. The implication of this according to Adedokun (2006) is that for every loan amount, the board has to meet to pass resolution before any application can be forwarded to the FMBN and board meetings are usually held either weekly or fortnightly and sometimes on monthly basis which constitute a barrier to smooth implementation.
iii. The requirements that copies of memo and articles of association of PMI be always made to accompany each application is another unnecessary waste of stationery and money. Other documents that are always required to accompany each application are audited account for three years, fidelity bond, errors and omission policy and tax clearance.
iv. The restriction of the charges by the PMI's to 0.5% of the loan amount for legal, inspection, survey and other administrative handling and processes is a big hindrance. Yet, of this 0.5%, 50% of it has to be remitted to FMBN. This then means that a borrower granted a loan of =N=1,000,000.00 would pay =N=5,000.00 to the PMI and the PMI in turn would pay =N=2,500.00 out of =N=5,000.00 to FMBN. This is unremunerative and could be discouraging. No wonder the number of PMI's considerably reduced from 280 in 1998 to about 32 at the end of July, 2003.

Problems of housing development

First and foremost cost of construction and income posed a great problem as Windapo (2000) is of the opinion that the gap between income and shelter cost in Nigeria is very wide which has invariably eliminated low-income earners from housing market. Rising cost of building materials, inflation rate in the economy, fees of professionals involved in housing designs and construction, excessive profit of contractors and interest payable NHF loan.

The cost of urban land is a big discouragement to urban poor and is a major problem in housing development. Nubi (2000) asserts that only marginal land, with no title document and infrastructure at the periphery are available for the poor to build on which has resulted into housing that cannot qualify as homes and urban sprawl.

Reliance on quacks is one of the major setbacks in the industry as noted in Windapo (2000) because of acute shortage of skilled personnel in various trades and the large multinational firms employ few skilled personnel while Zubairu (2000) had shown that the absence of large real estate development companies with access to the relevant technology and financial muscle to develop cheap houses on mass scale culminated with proliferation of low quality contractors.

The operation of the financial institutions, commercial banks, finance houses, merchant's banks didn't help matters as many caused their savings to distress and liquidated thereby creating a big distortion in the saving culture of the masses. The poor response to NHF in terms of voluntary savings is not unconnected to the poor performance of these institutions in the 90's.

Research Methodology

Secondary data from the Federal Mortgage Bank of Nigeria (FMBN), which is the apex bank for mortgage institutions, was considered for the period between 1992 – 2009. The period was chosen because information on the data relating to the study was accessible for the period under consideration from FMBN as at the time of conducting the study. Percentiles and t-test were used for analysis. Also Pearson product moment of correlation was used to examine the extent of relationship not only between the amount applied for and the amount subsequently approved to the mortgagors but also amount collected and amount disbursed by the scheme. Also the results were crossed referenced with the results of the literature reviewed from the works of myriads of author.

Data Analysis

Table 1 reveals that out of three million, four hundred and forty seven thousand, four hundred and eighty two (3,447,482) contributors to the scheme to date, just only forty four thousand, seven hundred and eighty eight (44,788) representing 1.30% have benefitted from the scheme while 98.70% are yet to benefit from same scheme.

From the Table 2 above, it shows that 5.66% of the cumulative amount collected of forty four billion, two hundred and eighty seven million, one hundred and five thousand, three hundred and seventy five naira only (44,287,105,375..00) which represent two billion, five hundred and six million, eight hundred and fifty four thousand, five hundred and seventy six naira only (2,506,854,576.00) has been disbursed to date.

The test of significance from table 3 indicates that not only the difference between the amount of loan that mortgagors applied for and that which was approved to them are significant at 95% confidence limit but also between the amount of money collected to date and amount of money disbursed in form of loan to contributors of the fund.

From Table 4 above, it can be inferred that between the pair of amount applied for and amount approved to the mortgagors, there is a high positive correlation that is significant and there is also a very high positive correlation between the pair of amount collected and amount disbursed to the mortgagors.

Discussion of Findings

From Table 1, it can be seen that out of three million, four hundred and forty seven thousand, four hundred and eighty two (3,447,482) contributors to the scheme to date, just only forty four thousand, seven hundred and eighty eight (44,788) which represents 1.30% have benefitted from the scheme while 98.70% are yet to benefit from same scheme and the reasons are not farfetched because the primary mortgage institutions through which the fund could be assessed by the contributors of the fund are decreasing at alarming rate and also potential contributors will be discouraged to assess the fund because of the wide significant difference between the amount applied for and the amount subsequently approved to the mortgagors as can be seen from the table 3.

Table 3 and 4 depict that not only is there significant difference between the amount of loan that mortgagors applied for and that which was approved to them at 95% confidence limit but also between the amount of money collected to date and amount of money disbursed in form of loan to contributors of the fund and this actually support the position of Abiodun (1999) that National Housing Fund collected about 4 billion naira from the mandatory saving scheme and out of 300 million naira loan approved by FMBN, only 100 million was advanced and summarily concluded that the problem is not availability of fund but stringent measures to prevent default.

Another inference that can be adjudged to Table 1 is that forty four thousand, seven hundred and eighty eight (44,788) contributors have benefitted from the scheme since inception to date, and making reference to the decree establishing the scheme, it says the fund so assessed could be used for purchase of building, refurbishing the existing building or for the construction of new ones, indirectly it can be said that through the scheme, only 44,788 housing units have been produced till date and this is nothing compared with the prediction of Adedokun (2006) that by the end of year 2010, 20 million housing units would be required as this only amounted to 0.22%.

Conclusion

The inference from the analysis carried out is that the national housing fund scheme has not contributed significantly to the provision of housing units to the citizen from the inception of the scheme while the recommendations are that:

i. Large proportions of the contributors (mortgagors) should be allowed to benefit from the National Housing Fund Scheme by granting them loan.
ii. Funds locked up in scheme should be disbursed to the contributors that put up applications for the loan.
iii. Lastly, the wide gap between amount applied for and the amount so approved by the by PMIs should be removed so that the loan can effectively serve its purpose.

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Appendix

Table 1: Beneficiaries and the contributors to the scheme.

Year 1992 – 2009	Numbers	Percentage
Beneficiaries	44,788	1.30
Non-beneficiaries	3,396,694	98.70
Contributors	3,447,482	100.00

Source: Federal Mortgage Bank of Nigeria, 2010.

Table 2: Cumulative amount collected and disbursement till 2009.

Year	Amount collected	Amount disbursed
1999 – 2009	44,287,105,375.00	2,506,854,576.00

Source: Federal Mortgage Bank of Nigeria, 2010.

Table 3: request-approval-disbursement pattern

Pair	Mean	Std. deviation	T	df	Sig. (2-tail)
Amount applied for and amount approved	5821681.05	7318297.08	5.900	54	0.000
Amount collected and Amount disbursed	2504767265.76	2766075141.70	3.734	16	0.002

Table 4: Amount applied for & amount approved and amount collected & amount disbursed

Pair	N	Correlation	Sig.
Amount applied for and amount approved	17	0.863	0.000
Amount collected and amount disbursed	55	0.993	0,000