The Role Of Union Homes Savings And Loans Plc In Housing Finance In Benin City

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Abstract
Using the role of Union Homes Savings and Loans Plc in Benin City as a case study, this paper examines the savings and loans strategy of primary mortgage institutions. It observed that the strategy is a viable one for housing finance but, when the impact and pace is examined in view of the existing housing need, it becomes clear that this strategy however good, does not seem to have done much in meeting the housing needs in Benin City. The study found that low affordability and lack of awareness among others are the reasons for the low and lopsided demand and supply of mortgage facilities. Based on these observations, the study recommends that for a more effective financial mobilization for housing development, financial empowerment for the poor; mortgage interest rate subsidy for the low and medium income earners; an aggressive promotion of residential housing and creation of awareness about specialized primary mortgage institution should be pursued.

Introduction

It is universally accepted that housing is the next most important essential need of man after food and clothing. Overtime, man had evolved from seeking more than just shelter which is characteristic of primitive existence to seeking housing, a better and more formal form of shelter. Housing is not simply shelter, although this is an important component of it. A house is a building made for people to live in or for something to be kept and housing refers to providing accommodation in form of a house (Oxford Advanced Learners Dictionary 1998). According to Agunbiade (1983), good housing implies not only structurally sound shelter but an availability of adequate living space in a secured environment with access to employment opportunities and essential social services and amenities. Housing development seeks to promote this by facilitating housing demand and supply to meet housing need through standard regulations for land, building construction and other aspects of community and neighbourhood development.

Nigeria is faced with an overwhelmingly high housing needs characterized by poor housing conditions and shortage of houses. According to Ozo (2005), the majority of Nigerians (over 75 percent) are inadequately housed and, there is also the problem of inadequate facilities which becomes worse when it combines with other indicators of housing quality such age of building, structural deficiencies, poor layout, etc. According to Ozo (2005) two fundamental factors underlie the housing problem in Nigeria. First, the high rate of population growth which is exerting a deteriorating effect on the conditions of houses. Secondly, the high level of poverty as evident in both urban and rural areas has posed a major challenge to meeting the housing needs of Nigerians by lowering their demand for housing.

In view of this, successive governments have adopted several strategies and programmes for housing development. These strategies and programmes empower and encourage people to own their houses. This was one of the reasons for the enactment of the first national rolling plan (1990-1992), the National Housing Policy of 1991 and the New National Housing and Urban Development Policy of 2002. These policies interalia, identify finance as a major challenge to housing development. Thus, housing finance is the fundamental centre piece of our national housing policy. In this regard, the National Policy on Urban Development and Housing (2002) identified three characteristics which are affordability for household, viability for financial institutions and developers, and resource mobilization for the expansion of the housing finance sector within the framework of the national economy.

Statement of the Research Problem

The focus on housing finance has been very prominent for obvious reasons. This is because housing provision requires huge capital outlay which is often beyond the capacity of the medium/low income groups. A major area of concern has been mortgage financing, which has often been fingered as one of the most formidable constraints in the housing sector (Sanusi, 2003). Finance, one of the fundamental provisions of the 1991 Housing Policy has also been most problematic in terms of practicability and sustainability (Ozo, 2005). However, private sector involvement in finance has gone a long way to help facilitate housing development.

Mobilizing financial resources for housing development is not without challenges. These challenges are perhaps worse in Nigeria where the present housing finance system is severely underdeveloped and ill-equipped to mobilize and channel savings to the housing sector (The Guardian, 2009).

There is therefore still a very high housing need. For instance, in terms of quantity, Nigeria has a massive national housing deficit of about 16 million units. Using the role of Union Homes Savings and Loans Plc in Benin City as a case study, this study seeks to answer the following questions.

1. What are the various strategies for housing finance in Nigeria?
2. What are the challenges to housing finance in Nigeria?
3. How disposed (in terms of acceptability, affordability and patronage) is the population of the study area to the savings and loans strategy as presented by Union Homes Savings and Loans Plc?
4. What impact has been made so far by Union Homes in increasing the housing stock in Benin City?

Aim and Objectives of the Study

The aim of this research is to examine the various strategies for mobilizing finance for housing development in Benin City, Edo State, and to have an overview of public appraisal (and/or patronage) of these strategies. In consonance with this aim, the following objectives will be pursued:

1. To examine public appraisal and/or patronage of Union Homes Savings and Loans Schemes for housing finance in Benin City, Edo State.
2. To highlight the constraints on the effectiveness of the Savings and Loans Strategy in housing finance in Benin City, Edo State.
3. To examine the overall impact of Union Homes in Housing Finance in Benin City, Edo State.
4. And to suggest possible solutions to the challenges facing housing finance in Benin City.

Research Methodology

Two sets of questionnaires were drawn for this study. The first was directed and administered to staff of Union Homes. The second sets of questionnaires were targeted at the customers. Of this set of questionnaire, a total of 200 were administered but only 119 was retrieved and used for this study. The Special Package for Social Sciences (SPSS) was used to analyze the data.

Study Area

Benin City is geographically located within the co-ordinates of latitude $6^0$0N and $6^0$26N, and longitude $5^0$33E and $5^0$41E. Benin City, a city in Southern Nigeria and the capital of Edo State is connected by road and air to many parts of the country. Benin City is an ancient but modernizing city with trade, commerce, government and educational institutions. Small, medium and large scale industries are located in the city.

Benin City is an important centre for trade in ivory; it was the centre of the powerful kingdom of Benin before the 15th century to the late 19th century. Benin artisans were noted for wood and ivory carving and bronze casting. Benin City is made up of three local government areas which include; Egor, Ikpoba Okha and Oredo Local Government areas.

Benin City is blessed with a forest vegetation belt. Urban development have drastically reduced the vegetation in the area and most of the areas used for farming have now turned into residential, industrial, commercial, educational land uses. Benin City is an agrarian society. The main economic activity of the area is agriculture. Apart from the wood products, there is high yield of agricultural food crops which includes cocoa, rubber, cashew, cassava, bush meat, snails, fish, rice. Apart from agricultural activities, industries are also available in the state, such as carving and brewing. Benin City is famous for her work of arts; they include plagues, busts and royal figures. Various carving, smothering, jewelry, mat-making, cloth weaving businesses thrive in Benin City and the city is also known for its bronze casting arts.
The 2006 population census of Benin City (comprising the three local government areas of Egor, Ikpoba Okha and Oredo), was given as 1,085,676 with Egor at 339,894, Oredo at 374,671, and Ikpoba Okha at 371,106 **(**NPC, 2007, Gazette).

Conceptual Framework

Some of the concepts relevant to this study are the concept of housing (Oxford Advanced Learner's Dictionary, 1998), the concept of housing development (Ebie, 2009), the concept of mortgage, (Thomas, 2007, Comptrollers Handbook, 1998, Jacobus and Harwood, 1996) the concept of housing finance or mortgage finance (Thomas, 2007; Nubi, 2001; Sanusi, 2003), the concept of housing finance market or mortgage market (Thomas, 2007; Jacobus and Harwood, 1996), the concept of mortgage market institutions (Thomas, 2007; Ajanlekoko, 2001; Nubi, 2001), the concept of demand for mortgage (Thomas, 2007), the concept of supply of mortgage (Thomas, 2007), the concept of primary mortgage (market) institutions (Jacobus and Harwood, 1996; Thomas, 2007), the concept of secondary mortgage (market) institutions (Jacobus and Harwood, 1996; Thomas, 2007), the concept of savings and loan association (Jacobus and Harwood 1996; Comptroller Handbook, 1998; Thomas, 2007), and the concept of Union Homes Savings and Loans Plc.

Literature Review

Overview of Housing Finance

Due to the importance of sustainable housing development to the socio-economic development of the country and against the backdrop of the funding challenges in the quest for housing development, several strategies – taking the form of institutional framework, programmes and policies, etc, are being employed to facilitate and ensure an impressive housing development.

According to Nubi (2001), housing finance was during the colonial days limited to the expatriate staff and few selected indigenous senior civil servants in the urban centers. The establishment of Lagos Executive Development Board (LEBD) in 1928; Nigeria Building Society (NBS) in 1956; formation of State Housing Corporation between 1956 and 1960; National Council of Housing in 1971 and Federal Mortgage Bank of Nigeria (FMBN) 1977 with a takeoff capital of N20million which was later increased to N150million in 1979, are very familiar developments in Nigeria.

In Nigeria, housing is typically financed through a number of institutional sources; budgetary appropriations, commercial/merchant banks, insurance companies, state housing corporations, the Federal Mortgage Bank of Nigeria and now the newly established Mortgage Institutions. All these constitute the formal institutions which operate within the statutory guideline stated by the federal government (Ajanlekoko, 2001).

Similarly, Nubi (2001) observed that the formal sector in Nigeria comprises of the Federal Mortgage Bank of Nigeria (FMBN), commercial banks, merchant banks, specialized development banks, pension funds, corporate bodies and developers/contractor. Thus, the formal sector in housing finance also includes the mortgage market institutions which can generally be grouped into secondary and primary mortgage institutions. These institutions make up the housing finance market that ensures availability and affordability of funds (loans] for housing development. Thomas (2007) included savings and loans associations and mutual trust/savings bank as types of primary mortgage institutions.

Budgetary appropriation entails funding through government monetary allocation or as credits and/or subsidizes to primary and secondary mortgage institutions and corporative housing societies. Emphasis on budgetary appropriation was mainly during the oil boom period of 1973/97 and 1980/81. Little or no role was allowed the private sector in housing finance. Beside budgetary appropriation, the government also introduced the site and service programme in the fourth national development plan and the first national rolling plan (1990-1992) periods. The idea was to facilitate the people’s access to land. It involved the provision of land for housing in a well planned environment (Okolie, 2001).

The Coconut

On the other hand, insurance companies have funds appropriate for housing finance. Their source of money is the premium paid by policy holders. (Jacobus and Harwood, 1996). Housing corporations which are owned and controlled by its members are legal associations formed for the purpose of providing housing finance to its members. Savings and loans associations emphasize home ownership by making loans available to finance housing development. They also buy and own mortgage related instruments. In USA, they hold about 35 percent of the total outstanding mortgage debts and 80 percent of their risk assets are mortgage loans. Their source of funds for mortgage include: mobilization of savings through passbook savings account offered to household, certificate of deposit, borrowing from secondary mortgage institutions and commercial banks, and repayment of the outstanding loans and prepayment. (Thomas, 2007).

Mutual Trust/Savings Banks are usually referred to as savings banks. Though, no specific use was intended for savings banks as they make personal loans as well as real estate loans. That notwithstanding, over 60 percent of their total lending are mortgage loans, 35 percent of which are on both residential and non-residential property (Thomas, 2007). Housing finance is secondary to commercial banks lending activities. Commercial banks are considered conservative in their home mortgage operations. They make loans that have higher down payment requirements and shorter maturities (Thomas, 2007).

A housing policy sure presents the basis for understanding the relations among housing finance institutions, their strategies for mobilizing finance and their terms of operations. The Nigeria government through the National Housing Policy of 1991 established a framework within which to collaborate with private sector to ensure a much effective housing finance system; encourage the linkage of the housing sector to the capital market, establish a National Housing Fund, and expand private sector role in the housing delivery system.

The policy regarded housing in the context of the overall national development and also identified the fact that different households both within and between income groups tend to have different demand for housing.

The policy created a two-tier housing finance system with primary mortgage institutions (PMIs) established at the first tier and the Federal Mortgage Bank of Nigeria at the second tier level to supervise and regulate the system. The general functions of the Federal Mortgage Bank of Nigeria[FMBN] as laid down by the mortgage institution Act No. 53 of 1989, includes – to process the licensing of Primary Mortgage Institutions (PMIs); to promote the protection by each PMI of the investments of its shareholders and depositors; to promote the financial stability and efficiency of the PMIs by setting guidelines and control measure; to administer the system of regulation of PMIs; to develop a Secondary Mortgage Market for housing finance to improve the liquidity of the system; to act as a guarantor for loan stocks floated by the PMIs and to manage the National Housing Fund (NHF).

Thus, the Mortgage Institutions Act was promulgated to prescribe the regulatory supervisory framework for the establishment and operation of Primary Mortgage Institutions (PMIs). These regulatory functions of the FMBN were transferred to the Central Bank of Nigeria (CBN), the apex financial institution in Nigeria in 1998. This in effect, brings all Primary Mortgage Institution (PMIs) under the control of the CBN while the FMBN is left with the management of the National Housing Fund (NHF). The National Housing Fund Law (1992) allows the Primary Mortgage Institutions to access the National Housing Fund as proposed in the policy, to ensure a continuous flow of long-term funding for housing development and provide affordable loans for low income housing.

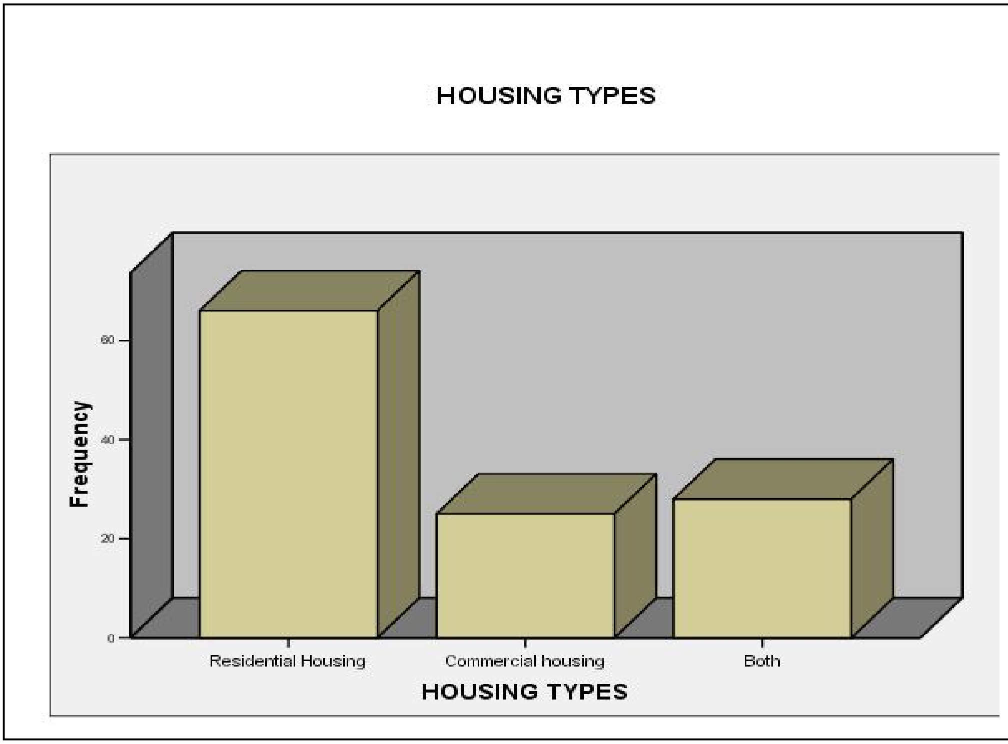
The National Policy on Urban Development and Housing (2002), has steered the mortgage industry to sustainably deliver affordable mass housing with active participation of the private sector. A distinct feature of the reform borders on institutional framework. The National Housing Fund Act allows only primary mortgage institution (PMIs) to have access to the fund. This obviously places an increasing barrier to the free flow of loan facilities, thereby defeating the objectives of the scheme.

The National Housing Trust Fund (NHTF) Act opens several windows for directly accessing the fund by Cooperatives, State Housing Corporation and Estate Developers which makes for greater impact. The Act further provides for the tenure of Estate Development Loan Facilities to be for more than twenty-four (24) months. This is to encourage early disposal and repayment in order to make similar loans available to as many developers that meet the conditions for lending.

These facilities obtained from the fund are limited to the development of only residential accommodation. It is therefore envisaged that the mortgage industry would experience far reaching changes under the current reforms as the Federal Mortgage Bank of Nigeria is now linked to the capital market by trading in Mortgage Backed Securities (MBS) in which every other housing finance institutions are investors. (SEC, 2005)

Housing Finance Characteristics

Figure 1: Types of Housing of Respondents



Source: Field Survey, 2009.

Based on our field work, Figure 1 shows that 55.5% of our respondents took mortgage loans for the purpose of funding a residential project, 21.0% took for funding commercial housing projects while the remaining 23.5% took mortgage loans to fund housing projects that are both for commercial and residential uses.

Table 1: Categories of Loans

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
4 Million	4	3.4	3.4	3.4
5 Million	57	47.9	47.9	51.3
7 Million	11	9.2	9.2	60.5
8 Million	10	8.4	8.4	68.9
10 Million	30	25.2	25.2	94.1
20 Million	7	5.9	5.9	100.0
Total	119	100.0	100.0	

Source: Field Survey, 2009.
Data in Table 1 shows that 3.4% of respondents' took N4 million as loans, 47.9% took N5 million, 9.2% took N10 million and finally 5.9% of respondents took N20 million as loans.

Table 2: Amounts of Respondents Monthly Payments

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
N103,203.43	57	47.9	47.9	47.9
N110,374.06	4	3.4	3.4	51.3
N144,484.51	11	9.2	9.2	60.5
N165,125.15	10	8.4	8.4	68.9
N206,266.37	30	25.2	25.2	94.1
N412,812.89	7	5.9	5.9	100.0
Total	119	100.0	100.0	

Source: Field Survey, 2009.

Data in this table shows that respondents monthly payments for the mortgage loans taken were in categories of N103,203.4, N110,374.06, N144,484.51, N165,125.15, N206,266.37, N412,812.89. Each of these amounts were 47.9%, 3.4%, 9.2%, 8.4%, 25.2% and 5.9% respectively.

For respondents' repayment periods, two variables which are 5 and 10 years occurred. Each of which were 3.4% and 96.6% of the total respondents.

Table 3: Satisfaction with Terms of Agreements

Responses	Frequency	Percent	Valid Percent	Cumulative Percent
Very satisfactory	32	26.9	26.9	26.9
Satisfactory	87	73.1	73.1	100.0
Total	119	100.0	100.0	

Source: Field Survey, 2009.

In terms of satisfaction with terms of agreements 26.9% of respondents were quite okay and the remaining 73.1% were just okay with the terms of agreement. These positive responses show the already observed fact that all the respondents are high income earners (N60,000 and above) and most of them are on relatively fixed and constant supply of income. For this category of persons, meeting the terms of agreement like paying a fixed 22% amortized interest rate for say a mortgage loan of N10 million for a period of 10 years which will be N206,266.37 per month can be met with ease considering the benefits of a housing project worth such an amount.

On the contrary, as observed by Union Homes staff, most prospective customers (who are usually low and medium income earners) on hearing the requirements and terms of repayment for the mortgage facility, would not put up an application.

Therefore, demand of mortgage loans (facilities) is low and lopsided in favour of the high income earners. But demand as evident in the large amount of prospective customers who are turned down after inquiry is far much higher than supply. This implies that majority of those embarking on housing development projects, especially those employing the savings and loans scheme are the high income earners and they are few in relation to the entire prospective customers.

Furthermore, 97.5% of the 119 respondent have applied once for loan while the remaining 2.5% have applied twice. 1.7% of all respondents also said they have had an ungranted application for a mortgage loan while 98.3% said they have not had any. As already noted, application is usually done after careful inquiry and evaluation of needed requirements. So, only those who qualify for mortgage loans or can meet the requirements end up applying for loan. This explains why cases of ungranted and double application for mortgage loans are very minimal.

Challenges of Union Homes in Housing Finance in Benin City

The challenges of Union Homes in housing finance in Benin City are;

1. Low affordability resulting from low/medium income earnings
2. Lack of awareness and information network by both consumers (mortgage borrowers) and investors on the activities of primary mortgage institutions

Hypotheses

In this study, the following hypotheses were formulated and tested:

Hypothesis One

Union Homes has not positively impacted on housing stock in Benin City

Hypothesis Two

Types of Housing have no significant relationship with the categories of loans applied for.

The Impact of Union Homes on the Housing Stock in Benin City

Table 4: Chi-Square Test on the Impact of Union Homes on Housing Stock in Benin City

	IMPACT OF UNION HOMES ON HOUSING STOCK IN BENIN CITY
Chi-Square(a)	85.723
Df	1
Asymp. Sig.	.000

a 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 59.5.

Source: Field Survey, 2009

$$X^2 = \frac{(O - E)^2}{E}$$

Where:

O = Observed

E = Expected

Since X^2 tabulated = 3.814

X^2 calculated = 85.723

X^2 calculated is greater than the X^2 tabulated. Then, Ho is rejected and Hi is accepted. That is, Union Homes has positively impacted on increasing the housing stock in Benin City. This implies that Union Homes has recorded a lot of success in granting mortgage loans to its numerous customers in Benin City. Thus, the savings and loans strategy is viable to increasing the housing stock in Benin City.

Though factors like high positive responses by respondents to question on satisfaction with terms of agreements and very few cases of ungranted application for mortgage loans further buttressed the fact that Union Homes has impacted positively in housing development in Benin City by way of increasing the housing stock, the level of its overall impact in view of the existing housing need in Benin City is very low. This low level impact is also the effect of low affordability and acceptability which has resulted in “low and lopsided” supply of mortgage facilities against the much higher demand for it

The Relationship Between the Types of Housing and Categories of Loans

Table 5: Chi-Square tests with Housing Types and Categories of Loans

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	163.338(a)	10	.000
Likelihood Ratio	185.040	10	.000
Linear-by-Linear Association	102.868	1	.000
N of Valid Cases	119		

A 10 cells (55.6%) have expected count less than 5. The minimum expected count is .84.

Source: Field Survey, 2009.

$$X^2 = \frac{(O - E)^2}{E}$$

Where:
O = Observed
E = Expected

X^2 tabulated = 18.338

X^2 calculated = 163.338

Therefore, X^2 calculated is greater than the critical table of X^2. Then, Ho is rejected and H1 is accepted. This implies that most of the loans collected are used for certain housing purposes.

For instance, it is observed that residential housing purpose which is the main target of housing development has the highest number of mortgage loans (N4 million and N5 million). The interpretation of this is that housing development could be facilitated when residential housing is the major target. Another interpretation is that to facilitate a more improved financial mobilization and strengthen viability for financial institutions, residential housing purpose which pulls more mortgage borrowers have to be aggressively promoted.

Findings

1.) The study shows that the total supply of mortgage loans is low.
2.) The savings and loans strategy for housing finance is a viable strategy for housing finance institutions as it mobilizes savings/deposits as well as generate profit for investors in the housing finance sector.
3.) The study also shows that though Union Homes has impacted positively in housing development in Benin City by way of increasing the housing stock, the impact, in view of the enormous housing needs in Benin City, is very low. This is because of the low and lopsided supply of mortgage loans which is

due to low level affordability of mortgage facilities and lack of awareness about Primary Mortgage Institutions. It also found out that residential housing is the main focus of housing finance.

Conclusion

There is the need for effective mobilization of financial resources for the housing sector so that it can successfully contribute its quota to the socio-economic development of the nation.

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