Performance of Housing Finance through Commercial Banks in Kaduna, Northern Nigeria

Muhammad Umar Bello[1], Lawal Usman Nasarawa[1] & Hadiza Tijjani Bello[1], Sakariyau Jamiu Kayode[1]

[1]*Department of Estate Management & Valuation, Faculty of Environmental Technology, Abubakar Tafawa Balewa University, Bauchi.*

Abstract

The paper highlighted housing as an essential need of man, which is why it is described as a sine qua non of human living, the priority accorded the issue of housing is immense; to most governments, the availability of sufficient but basic housing for all is often stated as a priority for enhancing the social needs of the society. Habitable housing contributes to the health, efficiency, social behaviour and general welfare of the populace. Apart from providing man with shelter and security, housing plays a major role in serving as an asset. Commercial banks through their intermediation role engender economic development in every economy. Most studies divide the determination of commercial banks behaviors into two (2) categories that is: internal and external factors. The research approach adopted for this Study is the survey approach which is more of quantitative research. The sample frame for this study is 800 low income earners from the Kaduna State Ministry of Education. A sample size of 800 is 270.The sample size of this study is 270 Staff. Simple random sampling technique was adopted by the researcher in selecting study sample, because it allows for equal chances of the models or sample to be selected. The findings revealed that the interest rate is adequate is the item that rank first, while to obtained loan from commercial banks rank second on the adequacy of cost of housing finance by commercial bank in the study area. It was recommended that allocation for housing sector should be increased to enhance housing purchase and renovation of existing structures. The federal government should subsidize the prices of building materials which may make the objective, ''housing for all''

achievable. That is provision of houses for all Nigerians at an affordable cost.

Introduction

Universally, vast majority of countries access to affordable land and housing is a critical contemporary challenge (Trow, 2007). While in different countries and regions the specificities of the challenge vary, the universal truism is that it is becoming increasing difficult for the vast majority of urban residents to obtain and retain adequate and affordable land and housing (Mcbride *et al*., 20011). The first four volumes in the Adequate Housing Series canvas the state of affordable land and housing in four regions facing major affordability difficulties: Latin America and the Caribbean, Asia, Africa, and Europe and North America (Spalding, 2013). Each volume firstly explores the major trends in housing conditions, availability, and quality and tenure modalities. Following this, each volume analyses housing policy responses to address growing affordability problems and the improvement of substandard housing conditions (UN-HABITAT, 2011).

Eshofonie (2008) observed that most countries put over 55% of their gross domestic investment into the creation of physical facilities, including infrastructure that is necessary for development. The building sector has various levels of manpower ranging from highly skilled professionals to completely unskilled labourers (Kazaz, 2003). In developing countries, physical construction activities alone provide between 2 and 6% of the employment demands of the nation and the subsidiary activities provide an additional 2 to 4%, while in the developed countries the figure rises to between 6 to 10% and 4 to 6 % (Okeola 2009).

Commercial banks are important financial intermediaries serving the general public in any society. In most cases, commercial banks hold more assets than any other financial institution in some cases even more than central bank. Apart from their many functions, commercial banks facilitate growth and development. Banks lends in many areas or sectors of the economy (Upper & Worms, 2004). Viewed from the building and construction sector, they contribute to investment, employment creation, and by extension, the process of infrastructure and economic growth (Farrel, 2012).

However, more studied conducted on the factors affecting the involvement of commercial banks in real estate development example (Gotham, 2006, Levine &Barth, 2001, Clark, Cull, Peria, & Sarches, 2003, Chaney, Sraer & Thesmar, 2012, Winarso & Firman, 2002). Unfortunately, there has been so much study on performance of commercial banks on housing development. In view of the above discrepancy, the study seeks to examine the adequacy of cost of financed of housing development by commercial banks for low income earners in Kaduna metropolis.

Kaduna is a fast-growing city in northern Nigerian States that has relatively high population of residence in need of housing due to the immigrants from different part of the state and the country at large, this study will be necessity to examine the performance of commercial bank on housing development for low income earners in Kaduna metropolis.

Role of Commercial Banks as Financier for housing development in Nigeria

Commercial banks through their intermediation role engender economic development in every economy. As cited in Nwezeaku and Akujuobi (2010), among the many functions of commercial banks is credit extension to the various sectors of the economy. They also have several other functions such as acceptance and safe keeping of deposits and other valuables, transferring of funds, money creation, encouragement of banking habit among citizenry, provision of employment opportunities, and execution of government monetary policies, just to mention but a few (Nzotta, 2004). In order to enhance the development of Nigerian economy, the commercial banks give credits to various sectors in the economy mostly as stipulated by the central bank of Nigeria.

The commercial banks mostly give credit on short-term basis except in few instances where they will lend on medium and long-term basis provided it would not hamper the liquidity position of the bank (Nzotta, 2004).

These commercial bank loans must be given with collaterals or securities to back up the loan in case of a default. There are policies that guide commercial banks lending, which must be adhered to before loans are given out as enshrined in the Central Bank of Nigeria Prudential Guideline (Central Bank of Nigeria Annual Report, 2010).

Commercial banking activities have continued to be of immense advantage to the development of the economy, especially the credit facilities that the commercial banks offer to various sectors of the economy. These credits have improved investments at both internal and international levels and through them commercial banks performance objectives are expected to be met (Casolaro, Forcarelli and Pozzolo, 2002). The foregoing therefore supports the fact that banks play very vital roles in the economy by contributing immensely to the financial, economic and social development of the economy. For instance, commercial banks credit in a developing nation like Nigeria is channeled into so many sectors of the economy.

Factors Affecting the Lending Behavior of Commercial Banks

Most studies divide the determination of commercial banks behaviors into two (2) categories that is: internal and external factors. The internal determinants include: profitability which are within the control of the bank management could be broadly classify into two: financial statement variables and non-financial statement. By financial: it refers to those items in the balance sheet and income statement. And the non-financial variables have no direct relationship to the financial statement. Example: number of branches, states of banks (ltd or full-service branch, unit or multiple branches, location or size of bank, Sudin, 2004).

External factors are those factors that are not to be controlled by the bank management e.g Competition, regulation, market share, ownership, money supply, inflation. So much have been reviewed in terms of lending activities of various commercial banks, some opinions discussed on the factors responsible for banks willingness to extend much credit to some sector of the economy, while some deliberated on the effect of such extension of credits on productivity and output (Sudin, 2004).

According to Uhomoibhi (2008), the determinants of bank profitability macroeconomic evidence from Nigeria seeking to econometrically identify significant using a panel data set

comprising 1255 observations of 154 banks over a period of 1980-2006, the indices over the same period regression result reveal that interest rate, inflation, monetary policy and exchange rate regime, significant macroeconomic determinants of banks profitability in Nigeria banking sector development, stock market development and financial structure are insignificant and the relationship between corporate tax policy and bank profitability in Nigeria is inconclusive. Ezirim"s (2005) view, "Bank lending decisions generally are fraught with a great deal of risks, which calls for great deal of caution and tact in this aspect of banking operations. The success of lending activity to a great extent therefore, lies on the part of the credit analysts to carry out good credit analysis, presentations, structuring and reporting.

However, Samad (2004) examined the study of Bahran"s commercial banks performances during 1994- 2001. The main focus of the study was to examine empirically the performance of Bahrain"s commercial banks with respect to credit (loan), liquidity and profitability during the period. By applying students t-test to the financial measure. It was shown that commercial banks liquidity performance is not at par with the banking industry. That is commercial banks are relatively less profitable and less liquid as expected.

Although Olokoya (2011) claimed in the study on "the common determinants of commercial banks' lending behaviour", in Nigeria which aimed to test and confirm the effectiveness of these factors or variables. It reveals that there exists functional relationship between the variables. From the regression analysis, the model was found to be significant and its estimators turned out as expected and it was discovered that commercial banks have greatest impact on their lending behavior. And suggested that commercial banks should focus on mobilizing more deposits, as it will enhance their lending performance through the formulation of critical, realistic and comprehensive strategies and financial plans.

Though Acha (2011), probed into "the effect of banks financial intermediation on economic growth" on a time frame of 1980-2008, adopting the Granger causality test to ascertain the relationship that exist between savings mobilization and credit on one hand and economic growth on the other. Acha"s study could not identify any significant causal relationship between the variables.

Research Methodology

The research approach adopted for this Study is the survey approach which is more of quantitative research. The target population for the study would focus mainly on the prospective civil servants of Ministry of Education and Staff of First Bank and Union Bank only in the study area. The sample frame is the total number of items of the sample population. The sample frame for this study is 600 low income earners from the Kaduna State Ministry of Education. The sample size is a portion of the sample frame, a subset of the entire population selected for the purpose of generalizing. Sampling is usually done when the study population is too large for the researcher to come in contact with each and every element in the population. There are several sample size determination techniques, however, for this study; it is determined using Krejcie and Morgan (1970) table for determining sample size from a given population. A sample size of 800 is 270.The sample size of this study is 270 Staff. Simple

random sampling technique was adopted by the researcher in selecting study sample, because it allows for equal chances of the models or sample to be selected.

Data Presentation, Analysis & Discussion
Analysis of questionnaire returns

Questionnaire classified as set A was distributed to the selected category of sample for the research. A Descriptive statistic was compute using SPSS, the following result were tested and found, 270 questionnaires were distributed, 240 were returned while 200 were screened.

Table 1 Questionnaire Distribution

	Frequency	Percentage (%)
Questionnaire Distributed	270	
Questionnaire Returned	240	88/9
Questionnaire Missing	30	11.1

Table above shows that two hundred and seventy (270) questionnaires and 240 questionnaires was returned and 30 questionnaires was missing.

Table 2. Gender Distribution

	Frequency	Percentage (%)
Male	177	92.1
Female	23	8.9
Total	**200**	**100.0**

Table above shows that one hundred and seventy-seven (177) respondents representing 92.1% were male while 23 respondents representing 3.9% were female. The research observed that majority of the responded were male.

Table 3 Age of Respondents

	Frequency	Percentage (%)
20-30yrs	30	9.4
31-40yrs	37	15.7
41-50yrs	87	49.6
51-above yrs	46	21.3
Total	**200**	**100.0**

The table above, shows that twelve respondents (30) representing 9.4% were between the age of 20-30 years, (37) respondents representing 15.7% are within the age of 31-40 years, while (87) respondents representing 49.6% were between 41-50 years, and (46) representing 21.3% were from 51 years and above. Based on these, the researcher observed that majority of the responded in the study area were within the ages of 41-50 years.

Table 4 Adequacy of Cost of Housing Finance by Commercial Banks

Factors	Strongly agreed	Agreed	Neutral	Disagreed	Strongly disagreed	Mean	Rank
The interest rate charged is high	59(33.6%)	47(27.9%)	24(10.7%)	32(13.1%)	38(14.8%)	2.48	4
The lending rate is speculative	43(22.1%)	41(18.0%)	40(27.9%)	37(18.9%)	37(13.1%)	2.83	2
Commercial banks' lending is lower than other mortgage institution	42(26.2%)	54(28.7%)	37(13.1%)	39(13.9%)	22(18.0%)	2.69	3
Low interest rate results to high performance of commercial banks'	45(29.5%)	61(33.6%)	36(13.9%)	22(9.0%)	36(13.9%)	2.48	4
The interest rate is adequate	33(12.3%)	27(10.7%)	25(11.5%)	67(35.2%)	48(30.3%)	3.61	1

Analysis of table 4 above shows that (59) respondents representing 33.6% strongly agree, (47) respondents representing 27.9% agree, (24) respondents representing 10.7% are neutral, (32) respondents representing 13.1% disagree, while (38) respondents representing 14.8% disagrees. The above data disclosed that the interest charge on mortgage loan of commercial banks is usually high as majority of the respondents in the study area assents to that.

Table 4 above shows that (43) respondents representing 22.1%% strongly agree, (41) respondents representing 18% agree, (40) respondents representing 27.9% are neutral, (37) respondents representing 18.9% disagree, while (37) respondents representing 13.1% disagrees. As indicated in the table above, majority of the respondents are neutral on the speculation of lending rate by commercial banks.

The analysis of the aforementioned table 4 disclosed that the interest charge on mortgage loan by commercial banks is lower than other mortgage institution as (42) respondents representing 26.2%% strongly agree, (54) respondents representing 28.7% agree, (37) respondents representing 13.1% are neutral, (39) respondents representing 9.8% disagree, while (22) respondents representing 18% disagrees.

An examination of the above table 4 indicates that low interest charge on mortgage loan results to higher performance of commercial banks in housing development. (45) respondents representing 29.5%% strongly agree, (61) respondents representing 33.6% agree, (36) respondents representing 13.9% are neutral, (22) respondents representing 9% disagree, while (36) respondents representing 13.9% disagrees.

As observed in table 4 the interest rate charged by commercial on housing loan is not adequate to the borrowers as majority of the respondents disagree with the statement. The data shows (33) respondents representing 12.3%% strongly agree, (27) respondents representing 10.7% agree, (25) respondents representing 11.5% are neutral, (67) respondents representing 35.2% disagree, while (48) respondents representing 30.3% disagrees.

Conclusion and Recommendation

This research has shown that commercial banks have not impacted positively on housing development. It has also shown that the availability of mortgage loans to would-be beneficiaries is mostly not available in time, and the acquisition of loan by the beneficiaries is dependent to certain factors namely, availability of sufficient funds, stable interest rates and ability of beneficiaries to pay back. Developers are still willing to obtain loans under the mortgage finance scheme, despite the low-income levels in the country, since housing is a basic necessity. An effective monitoring system of mortgage institutions' activities by the Federal Mortgage Bank of Nigeria would go a long way in doing away with the bottlenecks and improve housing development. Also, the problems of default would be minimized. Finally, it is worthy of note that there has not been enough funds channeled towards the financing of real estate development by all the organs expected to be done to meet the housing needs of the teeming Nigerian population.

The study recommends that the allocation for housing sector should be increased to enhance housing purchase and renovation of existing structures. In order to ensure that beneficiaries are genuine borrowers, adequate, well trained and qualified credit officers should be employed by mortgage institutions to monitor disbursements under the mortgage loans schemes and thereby ensure their success and boost housing development and delivery. The time lag in the disbursement of loans should be considerably minimized by banks to enable borrowers receive loans on time in order to also reduce default rate by beneficiaries and boost housing delivery.

References

Acha, I. A., & Acha, C. (2011). Interest rates in Nigeria: An analytical perspective. *Acha, Ikechukwu Anthony and Acha, Chigozie Kelechi (2011), Interest Rates in Nigeria: An Analytical Perspective, Research Journal of Finance and Accounting*, *2*(3), 71-81.

Atanda, J. O., & Olukoya, O. A. (2019). Green building standards: Opportunities for Nigeria. Journal of Cleaner Production, 227, 366-377.

Cakir, A., Mavi, A., Yıldırım, A., Duru, M. E., Harmandar, M., & Kazaz, C. (2003). Isolation and characterization of antioxidant phenolic compounds from the aerial parts of Hypericum hyssopifolium L. by activity-guided fractionation. *Journal of Ethnopharmacology*, *87*(1), 73-83.

Eshofonie, F. P. (2008). Factors affecting cost of construction in Nigeria. *Unpublished M. Sc thesis, University of Lagos, Akoka*.

Ezirim, G., Onyemaechi, E., & Freedom, O. (2016). The political economy of Nigeria's power sector reforms: Challenges and prospects, 2005-2015. *Mediterranean Journal of Social Sciences*, *7*(4), 443.

Farrel, B., & Farrel, P. (2012). *The 10 Best Decisions a Graduate Can Make*. Harvest House Publishers.

Kehinde, J. S., & Adejuwon, K. D. (2011). Financial institutions as catalyst to economic development: The Nigerian experience. *European Journal of Humanities and social sciences*, *8*(1).

Kori, B. W., Muathe, S. M., & Maina, S. M. (2020). Banks Regulation and Performance in the Context of Commercial Banks in Kenya. *Sciences*, *10*(10), 65-79.

Nwezeaku, N. C., & Akujuobi, A. B. C. (2010). Monetary policy and bank performance: the Nigerian experience. *Interdisciplinary Journal of Contemporary Research in Business*, *1*(12), 140-150.

McBride, B., Majale, M., & Tsenkova, S. (2011). *Affordable Land and Housing in [name of Region]* (Vol. 3). United Nations Human Settlements Programme.

Okeola, O. G. (2009, August). Occupational health and safety (OHS) assessment in the construction industry. In *1st Annual Civil Engineering Conference Proceeding. University of Ilorin, Nigeria* (pp. 26-28).

Samad, A. (2004). Performance of Interest-Free Islamic Banks Vis-Ã€-Vis Interest-Based Conventional Banks of Bahrain. *International Journal of Economics, Management and Accounting*, *12*(2).

Sassen, S. (2012). 3 Expanding the Terrain for Global Capital When Local Housing Becomes an Electronic Instrument.

Spalding, E. P., & Miller, N. D. (2013). Image analysis is driving a renaissance in growth measurement. *Current opinion in plant biology*, *16*(1), 100-104.

Trow, M. (2007). Reflections on the transition from elite to mass to universal access: Forms and phases of higher education in modern societies since WWII. In *International handbook of higher education* (pp. 243-280). Springer, Dordrecht.

Uhomoibhi, T. (2008). Determinants of bank profitability: Macroeconomic evidence from Nigeria. *Social science research network*.

United Nations Human Settlement Programme (UN-Habitat). 2002. Financing Adequate Shelter for All: Addressing the housing finance problem in developing countries.

Upper, C., & Worms, A. (2004). Estimating bilateral exposures in the German interbank market: Is there a danger of contagion?. *European economic review*, *48*(4), 827-849.