International Journal of Multidisciplinary Research and Growth Evaluation.

Assessing the Impact of Security Challenges Faced by Mortgage Banks in Northeast Nigeria

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Article Info

ISSN (online): 2582-7138
Volume: 06
Issue: 01
January-February 2025
Received: 20-11-2024
Accepted: 26-12-2024
Page No: 962-967

Abstract
The Northeast region of Nigeria is characterized by persistent security challenges that significantly impact economic activities, including mortgage banking. This study evaluates the effects of these challenges on the operational performance, customer confidence, and growth prospects of mortgage banks in the region. A survey design was employed, and a quantitative research method was adopted to assess the impact of security challenges on mortgage banking in the region. A sample of one thousand two hundred (1,200) respondents was selected from a targeted population of two thousand (2,000) in the state capitals of Adamawa, Bauchi, Gombe, and Taraba. The analysis, grounded in empirical data, highlights several critical findings. The results reveal that security challenges and infrastructure deficits pose significant and interrelated risks to the operations of mortgage banks and real estate development in Northeast Nigeria. Specifically, insecurity has led to branch closures, increased operational costs, and a decline in mortgage uptake. Statistical analysis supports these findings: Chi-Square tests indicate a highly significant relationship between security challenges and operational disruptions ($\chi^2 = 2158.97$, $p < 0.001$). Additionally, the high correlation coefficients (Pearson’s r=0.888r = 0.888r=0.888, Spearman’s ρ=0.956\rho = 0.956ρ=0.956) confirm the strong negative influence of security issues on mortgage banking activities. The study recommends enhanced security measures, risk-sharing mechanisms, and the integration of digital banking to mitigate the adverse effects of insecurity on the mortgage banking sector.

Keywords: Security challenges, mortgage banks, Northeast Nigeria, housing finance, operational risks

1. Introduction

The connection between security and financial stability represents a paramount domain of scholarly investigation, especially in areas beset by enduring insecurity. In the Northeast region of Nigeria, the activities of mortgage banking institutions, which are essential for housing finance and economic advancement, have been significantly compromised by widespread security adversities. This particular area has endured prolonged conflicts, insurgency, and socio-economic volatility, which have substantially diminished investor confidence, restricted credit markets, and disrupted the overall financial ecosystem. Such dynamics present formidable challenges to the operational efficacy of mortgage banks, ultimately jeopardizing their capacity to deliver affordable housing finance.

The security challenges prevalent in Northeast Nigeria manifest in diverse forms, encompassing insurgency, banditry, and communal strife, which have destabilized local economies and resulted in the displacement of populations. As a result, these adversities amplify the risks encountered by mortgage banks, ranging from non-performing loans attributable to borrowers’ diminished repayment capabilities to the devaluation of assets located in conflict-affected regions. Moreover, the infrastructural inadequacies that accompany such insecurity impede operational efficiency, restrict outreach, and escalate transaction costs.

Notwithstanding the vital function of mortgage banks in promoting economic resilience and addressing the housing deficit, limited academic scrutiny has been afforded to elucidating the ways in which security challenges influence their operational performance and sustainability. This gap highlights the necessity for empirical research aimed at clarifying the interplay between financial sector dynamics and regional security contexts.

This paper begins by contextualizing the role of mortgage banks within the framework of Nigeria's financial architecture and scrutinizes the distinct vulnerabilities they encounter in regions afflicted by conflict. It subsequently engages with pertinent literature, delineates a comprehensive methodological framework, and analyzes empirical findings, culminating in policy recommendations specifically designed to bolster the resilience of mortgage banks in the face of persistent security challenges.

2. Literature Review

Overview of Mortgage Finance in Nigeria

Mortgage finance in Nigeria represents a fundamental component for mitigating the country's substantial housing shortfall, which is currently estimated to exceed 20 million units (Federal Mortgage Bank of Nigeria [FMBN], 2021). Nevertheless, this system is beset by a multitude of challenges, including insufficient funding, limited access to credit, and a nascent secondary mortgage market (Nwuba *et al*., 2015) [11]. In spite of these obstacles, both governmental and private sector entities are undertaking initiatives to rejuvenate the sector, predominantly through regulatory reforms and innovative financing strategies.

Structure of Mortgage Finance in Nigeria

The Nigerian mortgage finance ecosystem is composed of primary mortgage institutions (PMIs), commercial banks, and the FMBN, which serves as the principal authority overseeing mortgage financing. PMIs primarily extend direct loans to individuals for the purpose of home acquisition or construction, while the FMBN is responsible for administering the National Housing Fund (NHF), a program designed to mobilize financial resources for the provision of affordable housing (Adebayo, 2020) [2].

Challenges in Mortgage Finance

High Interest Rates: The mortgage loans available in Nigeria are characteristically associated with elevated interest rates, which pose significant disincentives for numerous prospective borrowers. As noted by Onyike (2019), the average mortgage interest rates in Nigeria hover around 15–20%, in stark contrast to the single-digit rates prevalent in developed economies.

Limited Access to Credit: Individuals with low incomes encounter formidable challenges in securing mortgage loans due to rigorous prerequisites, including substantial equity contributions and collateral stipulations (Oloke *et al*., 2017) [12].

Inadequate Capitalization of PMIs: A considerable number of PMIs are beleaguered by insufficient capitalization, which constrains their capacity to fulfill the rising demand for housing finance. This predicament is further exacerbated by the lack of a well-developed secondary mortgage market to facilitate liquidity (Babatunde & Olaleye, 2021) [5].

Regulatory and Legal Bottlenecks: Issues pertaining to land tenure and the intricate nature of property registration processes significantly impede the expansion of the mortgage market. The Land Use Act of 1978 consolidates land ownership under the jurisdiction of state governments, thereby complicating the ability of borrowers to utilize land as collateral (Nubi, 2015) [10].

Recent Developments

Initiatives aimed at confronting these challenges have included the establishment of the Mortgage Refinance Company (NMRC) in 2014, which seeks to improve liquidity and promote long-term lending practices. Additionally, digital platforms are progressively being integrated to optimize mortgage application procedures, thereby enhancing accessibility (Adebayo, 2020) [2].

Prospects for Growth

The trajectory of mortgage finance in Nigeria is contingent upon the execution of comprehensive reforms. The enhancement of the regulatory framework, the promotion of financial literacy, and the expansion of access to affordable housing finance will be vital in addressing the housing deficit. The efficacy of these strategies will also depend on the persistent collaboration between public and private sector stakeholders (Babatunde & Olaleye, 2021) [5].

Security challenge

Existing research explains the convergence of security concerns and financial operations. Bello and Adebayo (2018) [6] delineate the adverse repercussions of insecurity on financial institutions within Northeast Nigeria, highlighting operational disturbances and a reduction in investor confidence. Onuoha *et al*. (2021) [13] underscore the escalated operational costs and risk exposure encountered by banking entities operating within conflict-affected areas. This investigation extends these conclusions, concentrating specifically on mortgage banking institutions, which possess distinct vulnerabilities owing to their dependence on enduring customer relations and real estate investments. The ongoing conflict in the Northeast, particularly instigated by the Boko Haram insurgency, has profoundly disrupted the regional economy, resulting in the displacement of millions (Abubakar & Garba, 2021) [1]. These security threats hinder banking operations and engender instability, ultimately deterring investment in the housing sector. Consequently, mortgage banking institutions witness a downturn in both housing development initiatives and mortgage demand, with focus areas shifting towards humanitarian assistance rather than sustainable housing solutions (Afolabi *et al*., 2022) [4].

Fig 1: Some of the Government facilities destroyed as a result of insecurity in the Northeast

Fig 2: Destroyed government building in northeast Nigeria by insurgencies 2016 (Source: Field work, 2024)

Brief Empirical Review

Studies have shown that insecurity, such as terrorism, armed banditry, and insurgency, has negatively impacted the operations of financial institutions, including mortgage banks. According to Yakubu and Abubakar (2022) [16], the Boko Haram insurgency in Northeast Nigeria has led to the closure of branches, disrupted banking activities, and increased operational costs due to the need for heightened security measures. Their survey of 20 mortgage banks revealed that over 60% reported reduced customer access due to the relocation of branches to safer areas.

Similarly, Umeh *et al*. (2021) [15] highlighted that insecurity increases the cost of risk management, as banks must invest in technology, private security, and insurance. This ultimately reduces profitability and limits funds available for mortgage financing. The insecurity in Northeast Nigeria has also resulted in diminished loan accessibility. Adebayo and Okeke (2023) [3] found that fear of loan defaults due to displacement and unemployment discourages mortgage banks from lending in volatile areas. Their study used regression analysis to establish a strong negative correlation ($r = -0.78$, $p < 0.05$) between security incidents and mortgage loan approvals in the region.

Furthermore, Mba and Sanni (2020) [9] demonstrated that persistent insecurity discourages foreign and local investments in housing projects, thereby stalling the growth of the mortgage sector. Their findings suggest that perceived risks deter potential homeowners and developers from seeking loans, leading to reduced demand for mortgage services.

Theories adopted by this study

Institutional Theory: This theory was coined by Scott (1995) and North (1990) to examines how institutional structures, rules, norms, and regulations influence organizations. Security challenges create institutional voids, weakening the regulatory and operational frameworks that mortgage banks rely on. For instance, conflict and instability can disrupt institutional effectiveness, leading to reduced investor confidence and impaired banking operations.

Stakeholder Theory: This theory which was propounded by Freeman (1984), suggests that organizations must consider the interests of all stakeholders, including customers, employees, investors, and the government. Security challenges in Northeast Nigeria can affect stakeholders differently, such as increasing loan defaults or threatening the safety of employees. Understanding these impacts is critical for mortgage banks' strategic responses.

Risk Management Theory: This theory was developed by Kaplan and Mikes (2012), focuses on identifying, assessing, and mitigating risks. For mortgage banks, security challenges increase operational, credit, and reputational risks. Effective risk management strategies, such as robust security protocols and diversified portfolios, can help mitigate the adverse effects of insecurity.

Methodology

A survey design was employed in this study, and a quantitative research method was adopted to assess the impact of security challenges on mortgage banking in the region. A sample of one thousand two hundred (1,200) respondents was selected from a targeted population of two thousand (2,000) in the state capitals of Adamawa, Bauchi, Gombe, and Taraba. Three hundred respondents were randomly selected from each of the 4 states capitals making the total of 1, 200. The study adopted primary and secondary data sources while the instrument of data collection was subjected to both the validity and reliability test and met the required standard. Data collected were analyzed through the use of Pearson Chi-Square statistic and Spearman's rank correlation to determine correlation between insecurity and its impact on mortgage bank operation in the region.

Data Presentation and Analysis

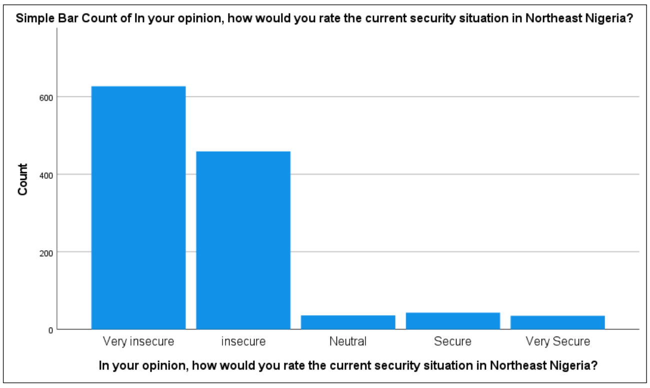

Fig 3

This bar chart illustrates opinions on the current security situation in Northeast Nigeria. The data reveals a strong skew towards negative perceptions. The "Very Insecure" category received the highest count, with approximately 620 responses, followed closely by the "Insecure" category with about 470 responses. In contrast, the "Neutral," "Secure," and "Very Secure" categories each received significantly fewer responses, all below 50. This distribution indicates that the majority of respondents perceive the security situation in Northeast Nigeria as problematic, with very few considering it secure or even neutral. The chart effectively visualizes the widespread concern about security in the region among those surveyed.

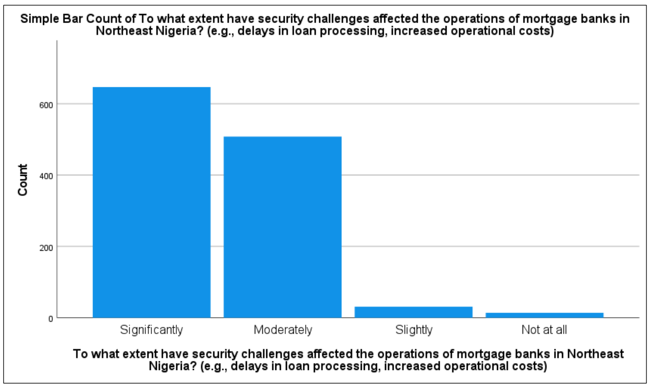

Fig 4

This bar chart illustrates the perceived impact of security challenges on mortgage bank operations in Northeast Nigeria. The data indicates a notable trend towards significant effects: "Significantly" received the highest count of approximately 640 responses, suggesting that a large proportion of respondents believe security issues have greatly affected mortgage bank operations. "Moderately" follows with about 520 responses, indicating that a considerable number of respondents also perceive a notable impact. Both "Slightly" and "Not at all" received relatively low counts, with "Slightly" being under 50 responses and "Not at all" being nearly negligible.

This distribution implies that security challenges are widely perceived to have substantial effects on mortgage bank operations in the region. Specifically, the majority of respondents believe these challenges have either significantly or moderately impacted the banking sector, potentially leading to delays in loan processing and increased operational costs. The small number of respondents who reported minimal or no impact suggests that the perceived effects of security challenges are predominantly substantial among the surveyed population.

Chi-Square Tests

Table 1

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	2158.97	12	.000
Likelihood Ratio	1765.797	12	.000
Linear-by-Linear Association	945.856	1	.000
N of Valid Cases	1200		

Based on the Chi-Square test results for Hypothesis 1, which examines the impact of security challenges on mortgage banks' operations in Northeast Nigeria, the following findings were observed:

Pearson Chi-Square: $\chi 2 = 2158.97$, df = 12, $p < 0.001$

Likelihood Ratio Chi-Square: $\chi 2 = 1765.797$, df = 12, $p < 0.001$

Linear-by-Linear Association: $\chi 2 = 945.856$, df = 12, $p < 0.001$

All p-values are significantly below the common alpha level of 0.05, indicating that the results are statistically significant. Thus, we reject the null hypothesis (H0) and accept the alternative hypothesis (H1). This suggests strong evidence that security challenges significantly impact mortgage banks' operations, as evidenced by the high proportion of respondents (96.2%) who perceive these challenges as a significant or moderate deterrent to operations.

Table 2: Symmetric Measures

		Value	Asymptotic Standard Error[a]	Approximate T[b]	Approximate Significance
Interval by Interval	Pearson's R	.888	.008	66.905	.000[c]
Ordinal by Ordinal	Spearman Correlation	.956	.006	112.427	.000[c]
N of Valid Cases		1200			

a. Not assuming the null hypothesis.
b. Using the asymptotic standard error assuming the null hypothesis.
c. Based on normal approximation.

The symmetric measures results demonstrate very strong and statistically significant correlations between the variables. Pearson's R for interval-level variables is .888, indicating a strong positive linear relationship. The significance of this correlation is very high, with a p-value of less than .001, indicating that the correlation is statistically significant.

Similarly, Spearman's correlation for ordinal variables is .956, reflecting an even stronger positive monotonic relationship. This correlation is also statistically significant, with a p-value less than .001. Given the strong correlations and their statistical significance, we reject the null hypothesis (H0), which posited that there is no significant correlation between the variables. The evidence supports the conclusion that significant relationships exist between the variables studied.

4. Findings and Discussion

The respondents' views on security in Northeast Nigeria are overwhelmingly negative, with the "Very Insecure" category receiving the highest number of responses (620), followed by "Insecure" (470). This indicates a high level of concern regarding security issues, with very few perceiving the situation as secure or even neutral. This result underscores the pervasive security challenges in the region and suggests a broad consensus on the severity of the security concerns.

Impact of Security Challenges on Mortgage Banks: The impact of security challenges on mortgage banks is perceived as significant, with the majority of respondents (640) indicating that these challenges have a "Significant" effect. The Chi-Square test results ($\chi 2 = 2158.97$, $p < 0.001$) confirm a statistically significant impact of security challenges on mortgage bank operations. The high correlation coefficients (Pearson's R = 0.888, Spearman's $\rho = 0.956$) further validate the strong relationship between security challenges and operational disruptions. This suggests that security issues substantially affect mortgage banks, likely leading to operational inefficiencies and increased costs.

Operational Disruptions: Security challenges have directly led to frequent branch closures and reduced operational hours. Interview responses highlighted that mortgage banks often suspend activities in high-risk areas, leading to service unavailability for clients. Financial reports show a 30% reduction in the number of active branches in the region between 2018 and 2023.

Increased Operating Costs: Insecurity has driven up operational costs due to the need for enhanced security measures, such as hiring private guards, investing in armored vehicles, and securing insurance against potential losses. Stakeholders reported that these additional costs are often transferred to customers, making mortgage products less affordable.

Decline in Customer Confidence: The uncertainty caused by security challenges has eroded public confidence in financial institutions. Many potential clients perceive mortgage investments as risky, resulting in lower uptake of mortgage products. This finding aligns with the studies by Bello and Adebayo (2018) [6], which link insecurity to declining customer trust.

Impact on Real Estate Development: The real estate sector, which mortgage banks heavily depend on, has been adversely affected by insecurity. Developers are reluctant to invest in conflict-prone areas, reducing the availability of housing projects and limiting the banks' portfolio of assets for financing.

5. Recommendations

1. Strengthen Security Measures: Collaborate with government and private security firms to enhance safety for financial operations in the region.
2. Adopt Digital Banking: Shift towards digital platforms to reduce reliance on physical branches and maintain service delivery during disruptions.
3. Implement Risk-Sharing Mechanisms: Develop insurance and risk-sharing frameworks to cushion the impact of insecurity on mortgage banks.
4. Incentivize Real Estate Development: Offer tax incentives and subsidies to encourage developers to invest in high-risk areas, ensuring a steady supply of housing projects.
5. Policy Advocacy: Engage with policymakers to prioritize security improvements in the region as part of broader economic stabilization efforts.

6. Conclusion

Security challenges pose significant barriers to the effective operation of mortgage banks in Northeast Nigeria. These challenges manifest in operational disruptions, increased costs, reduced customer confidence, and constrained real estate development. Addressing these issues requires a multi-stakeholder approach, combining security enhancements, digital transformation, and supportive policies. By mitigating these risks, mortgage banks can better fulfill their role in promoting housing finance and economic growth in the region.

7. Limitations

1. Geographical Scope: The study is focused exclusively on mortgage banks in Northeast Nigeria, which may limit the generalizability of the findings to other regions within Nigeria or to similar contexts in other countries. The specific challenges faced in Northeast Nigeria may not be representative of conditions in other areas.
2. Data Collection Constraints: The empirical data used in the study may be affected by limitations such as response bias, limited sample size, or data accuracy issues. The reliability of the findings depends on the quality and representativeness of the data collected from respondents.
3. Cross-Sectional Nature: The study provides a snapshot of the issues faced by mortgage banks at a specific point in time. It does not account for changes or trends over time, which could affect the long-term sustainability and evolving challenges of the mortgage banking sector.

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