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Investigating the Impact of Funding Constraints on Mortgage Banks in Northeast Nigeria

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Abstract
The mortgage banking sector in Northeast Nigeria plays a pivotal role in addressing housing deficits and promoting economic development. However, funding constraints significantly hamper the sector's performance. This study examines the nature, causes, and implications of funding challenges faced by mortgage banks in the region, with an emphasis on how these constraints affect their operations and market performance. The study employs both qualitative and quantitative methods, drawing on primary data from industry stakeholders and secondary data from regulatory reports using a sample of one thousand two hundred (1, 200) respondents from the targeted population from four northeast states while data were analyzed through the use of Pearson Chi-Square statistic and Spearman's rank correlation. Findings reveals that inadequate access to affordable long-term capital, high-interest rates, limited Access to Mortgage Refinancing and poor regulatory support are key impediments. Policy recommendations include enhancing government-backed mortgage refinancing schemes, creating alternative funding sources, and improving financial infrastructure.

Keywords: Mortgage banks, funding constraints, Northeast Nigeria, housing finance, financial infrastructure

1. Introduction

Housing is a critical component of sustainable development, contributing to economic growth, social stability, and poverty alleviation (Olayemi, 2020) [11]. Despite the growing demand for affordable housing in Nigeria, particularly in the Northeast region, the mortgage banking sector faces significant funding challenges that limit its capacity to meet this demand. This paper investigates the impact of these funding constraints on mortgage banks, with a focus on understanding their implications for housing delivery and financial performance.

Problem statement

The development of the housing sector is critical for economic growth and social stability, yet in Northeast Nigeria, mortgage banks face significant challenges that undermine their capacity to fulfill their mandate (Akinwunmi, 2016; Oyewole & Olofin, 2019) [4, 14]. One of the most pressing issues is funding constraints, which limit their ability to provide affordable housing finance to a region already grappling with severe housing deficits (Adebayo & Iweka, 2020; Eziyi *et al*., 2021) [1, 6].
Okonkwo, 2018; Ibrahim *et al*., (2022) [9, 7], The Northeast, being a region affected by prolonged insecurity and economic instability, further exacerbates these challenges, leading to inadequate financial resources and restricted credit flow. Despite various government initiatives and policies aimed at improving access to housing finance, the mortgage banking sector in the region continues to face structural and operational inefficiencies linked to limited funding sources ..." (Nubi, 2015; Ademiluyi & Raji, 2018) [8, 3]. These constraints hinder the ability of mortgage banks to sustain liquidity, innovate financial products, and meet the rising demand for housing loans. Existing research has predominantly focused on housing deficits and general financing in Nigeria, with limited attention to the unique funding challenges faced by mortgage banks in the Northeast (Onyike *et al*., 2017; Yusuf *et al*., 2021) [12, 15]. There is a need for a comprehensive investigation into the extent of these funding constraints, their root causes, and their implications on the performance and sustainability of mortgage banks in this region. Addressing this gap is critical for formulating targeted strategies to enhance housing finance and drive economic resilience in Northeast Nigeria.

2. Literature Review

The importance of adequate Funding in the mortgage banking sector cannot be overemphasized. According to Adebayo and Oke (2019) [1], mortgage banks require long-term capital to finance housing projects, but the limited availability of such capital in Nigeria constrains their operations. Furthermore, the Central Bank of Nigeria (CBN) (2023) [5] highlights that high-interest rates and inflationary pressures exacerbate the cost of funding, reducing the affordability of mortgage loans. Oyedele *et al*. (2021) [13] argue that weak regulatory frameworks and inefficient financial systems also contribute to the funding challenges faced by mortgage banks in the country.

Overview of Mortgage Banks in Nigeria

Over the course of the last fifty years, the Nigerian mortgage finance sector has transitioned from a predominantly communal and informal institutional framework to a more structured financial intermediation system. As articulated by Waziri and Roosli (2013), the historical trajectory of formal interventions in the Nigerian housing sector can be traced back to the colonial era and has persistently influenced the development of the nation's mortgage finance sector. It is crucial to underscore that the advancement of the Nigerian mortgage finance sector did not occur instantaneously. Systematic policy modifications and innovations, including the introduction of mortgage products and programs, were incrementally implemented over an extended period.

The Apex Mortgage Institution Secondary Mortgage Institution commenced its pivotal role as a principal medium for housing finance delivery in 1956, initially operating as a retail mortgage entity known as the Nigerian Building Society (NBS). This initiative represented a collaborative venture between British and Nigerian stakeholders (Ahmed, 2006) [15]. Taiwo (2008) concurred that Nigeria has experienced three significant phases of housing development, namely, the pre-independence period (1914-1960), the post-independence phase (1960-1979), and the second civilian administration era (1979-1983). It was noted that the 1991 Housing Policy has proven ineffective in alleviating the conspicuous and entrenched challenges within Nigeria's Housing and Development sector. This policy, regarded as a pivotal measure undertaken by the Federal Government of Nigeria to confront the pressing issue of inadequate financing for housing development, has been acknowledged as a substantial initiative (Anota, 2008). This policy was founded on two principal tenets, which are as follows:

The mortgage institutions decree, now designated as ACT No. 53 of 1989, was instituted to signify the inception of financial entities, specifically Primary Mortgage Institutions (PMIs), which facilitate mortgage savings intended for on-lending in property development and the creation of mortgages. Additionally, a secondary mortgage institution was concurrently established through the Act, serving as the apex regulatory body for mortgage institutions.

The establishment of the National Housing Fund (NHF) through decree, now referred to as Act No. 3 of 1992, was instituted to function as a reservoir or central repository for long-term financial resources mobilized from both private and public sector employees through mandatory monthly contributions.

The initiative for private involvement through mortgage banking and insurance entities, complemented by ongoing contributions from the Federal Government, was designed to furnish low-interest loans aimed at the provision of affordable housing for Nigerian employees. Ahmed (2006) [15] encapsulated the governmental objective through the mission statement of the secondary mortgage institution, which is to infuse the mortgage markets with enduring liquidity to promote home ownership among Nigerians, fortified by mortgage financing. Consequently, the government aspires to facilitate access to adequate and affordable housing. The Federal Mortgage Bank of Nigeria was entrusted with the responsibilities of licensing, overseeing, and regulating Primary Mortgage Institutions from 1989 until 1997. This responsibility was subsequently transferred to the Central Bank of Nigeria in 1997.

Nevertheless, while a significant number of PMIs faced insolvency during the economic downturn of the 1990s, the return to democratic governance in 1999 revitalized the sector. This revitalization was realized through the housing reforms implemented in 2002. In 2004, the apex bank underwent transformation into a genuinely government-sponsored secondary mortgage operator. This transformation, as noted by Tanimu (2006), represented a pivotal objective of the policy aimed at establishing a robust mortgage finance framework by integrating the housing finance sector with the capital market.

Banks play a pivotal role in funding real estate through mortgage financing. They provide loans for acquiring land for development, purchasing existing buildings, financing construction projects, and supporting non-bank financial institutions and firms using real estate as collateral (David and Zhu, 2004). In the United States, residential construction relies heavily on mortgage loans; for instance, nearly all single-family homes (one to four-family housing) are purchased with the aid of mortgages (Herzog and Earley, 1970). This reliance has significantly contributed to the growth of the U.S. real estate sector.

Dilapidated buildings housing some vulnerable families (Source: Author's survey, 2024)

Fig 1

Empirical Review

Wallace (1995), using descriptive statistics, analyzed affordable housing finance in the U.S. and found that the gap in affordable housing remains unaddressed. Tirtiroglo (1997) noted that private investors often turn to mortgage financing (debt financing) for real estate investments due to tax advantages or insufficient equity funds. Enhanced mortgage facilities positively impact the real estate sector by reducing risks, increasing returns, and boosting rental income. These variables are positively correlated, meaning that improvements in one lead to improvements in the other. Conversely, an underdeveloped real estate finance market hampers firms' and households' ability to unlock capital tied up in real estate, limiting the use of real estate as collateral for raising investment funds.

In Asia, Zhu (2006) examined the relationship between housing finance market structures and house prices using a two-step Engle-Granger error correction model. The study concluded that countries with more flexible housing finance policies experience greater responsiveness of house prices to market conditions, especially changes in equity prices. Meanwhile, in the U.S., Lee and Pace (2006) explored the relationship between local housing prices and mortgage refinancing in urban areas. Using regression analysis, they found that rising housing prices encourage borrowers to refinance due to increased borrowing capacity, facilitated by reduced mortgage ratios.

Stephen (2007) conducted a descriptive analysis on the deregulation of the mortgage market and its implications. The findings revealed that deregulation fosters increased competition within the mortgage sector, broadens access to housing finance, and enhances homeownership opportunities. However, it also introduces higher systemic risks. Similarly, Herbert, Karen, and Chatterjee (2009) analyzed financial literacy and risky mortgage delinquency in the U.S. during the financial crisis. Using Probit analysis on survey data from U.S. homeowners, their study revealed that borrowers with limited financial literacy were more likely to engage in risky mortgages and default on payments.

The Osogbo Journal of Management (OJM, 2017, 2(1)) referenced a study by Brissmis and Viassopoulos (2009), which examined the relationship between mortgage financing and housing policies in Greece using vector autoregression (VAR) analysis. The results indicated that housing prices in Greece are exogenously weak. Similarly, Carbo and Fernandez (2010) explored the connection between the mortgage market, housing prices, and financial instability in Spain, also employing VAR analysis. Their findings showed that a shift in mortgage lending in 2001 significantly increased the economic influence of mortgage lending on house prices.

Tiwari and Moriizumi (2010) conducted a comparative analysis of mortgage instruments in Japan, focusing on the efficiency of housing finance. Through regression analysis and estimated error correction models for various mortgage types, they identified a long-term relationship between mortgage rates and the yields of risk-free ten-year government bonds. However, they also observed short-term adjustments, with the speed of these adjustments depending on lenders' risk perceptions. The study highlighted that the Government Housing Loan Corporation had not effectively managed housing finance risks, and the absence of a secondary market limited risk management in mortgage pricing.

In the UK, Eric and Pryce (2011) investigated spatial inequality in housing wealth using Monte Carlo simulations. Their findings suggested the presence of cycles in housing wealth inequality, though no upward trend was identified. These cycles were substantial, with significant potential impacts on consumption, work incentives, and business formation. The study also found a shift in the overall distribution of house values, indicating a growing disparity in housing wealth between homeowners and renters during the period analyzed.

Ayodele, Obafemi, and Sabastim (2013) analyzed sustainable mortgage finance options in Nigeria through quantitative methods. Their findings revealed a significant housing deficit in Nigeria, indicating an insufficient number of houses compared to the population. Nwuba, Egwulahi, and Salawu (2014) explored clients' methods of influencing mortgage decisions using a sectional survey, group discussions, and questionnaires for data collection. Through descriptive analysis, they discovered that clients often employ subtle approaches to exert influence.

Asabere, McGowan, and Mooklee (2014) investigated the relationship between financing and economic development in Africa using the ordinary least squares (OLS) method. Their results indicated a significant positive correlation between the size of the mortgage market and GNI per capita. Similarly, Odi (2014) examined the impact of mortgage financing on the goal of providing housing for all Nigerians by 2020. Using OLS analysis, the study found a positive relationship between housing supply and roof gage credit.

Freeman and Harden (2014) studied affordable homeownership and the effects of down payment assistance, using descriptive analysis. They revealed that loans incorporating seller-funded assistance performed noticeably worse than other forms of loans. In Ghana, Amoss, Gadazkpo, and Amankwah (2015) investigated challenges in real estate development from the developers' perspective. Using quantitative analysis, they identified issues related to development and building permit approvals as major challenges.

Oyedokun, Adewusi, Oletubo, and Thomas (2015) examined mortgage lending practices in Nigeria through a questionnaire survey involving 65 primary mortgage institutions in Lagos. Spearman's correlation was employed to assess the relationships, and their findings suggested that current mortgage lending practices contribute to borrowers' mortgage defaults or inability to meet obligations. Finally, Olufemi and Oluwaseyi (2016) assessed the financing of housing service delivery and its challenges in Nigeria. Using descriptive statistics, they concluded that the financial systems implemented by the government have been ineffective.

3. Methodology

This study adopts a mixed-methods approach, combining primary data collected through structured questionnaires and interviews and surveys with secondary data from industry reports and academic literature. A purposive sampling technique was used to select stakeholders, including bank executives, regulatory officials, and customers, across four states in Northeast Nigeria.

A sample of one thousand two hundred (1, 200) respondents out of the two thousand (2, 000) targeted population from the selected states capitals were randomly selected from four northeast states of Adamawa, Bauchi, Gombe and Taraba. 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 the problems and prospects of mortgage bank.

4. Data analysis

Hypothesis

- H0: The sources and accessibility of funding do not significantly affect the operations of mortgage banks in the region, including their ability to secure constant, long-term financing.
- H1: The sources and accessibility of funding significantly affect the operations of mortgage banks

in the region, including their ability to secure constant, long-term financing.

Table 1: Chi-Square Tests

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	2166.30	10	.000
Likelihood Ratio	1831.908	10	.000
Linear-by-Linear Association	1047.184	1	.000
N of Valid Cases	1200		

The results of the Chi-Square tests reveal a significant association between the sources and accessibility of funding and the operations of mortgage banks in Northeast Nigeria. Specifically, the Pearson Chi-Square statistic was 2166.30 with 10 degrees of freedom, and the p-value was less than 0.001, indicating a strong statistical significance. Similarly, the Likelihood Ratio yielded a value of 1831.908 with a p-value less than 0.001, and the Linear-by-Linear Association showed a value of 1047.184 with a p-value less than 0.001. These results consistently demonstrate a significant relationship between the funding sources, their accessibility, and their impact on mortgage bank operations. Therefore, based on the data, we reject the null hypothesis (H0) and accept the alternative hypothesis (H1). The findings provide clear evidence that funding sources and accessibility significantly influence mortgage bank operations. Additionally, the data shows that most funding comes from commercial banks (54.2%) and international aid (17.2%), but accessibility remains an issue, with nearly 60% of respondents describing funding as very limited.

Table 2: Symmetric Measures

		Value	Asymptotic Standard Error[a]	Approximate T[b]	Approximate Significance
Interval by Interval	Pearson's R	.935	.004	90.903	.000[c]
Ordinal by Ordinal	Spearman Correlation	.936	.005	92.317	.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 analysis of the Symmetric Measures reveals very strong and statistically significant correlations between the variables. Pearson's R value is .935, and Spearman's Correlation is .936, both with p-values of .000. These high correlation coefficients suggest a robust positive relationship between the variables. The p-values indicate that the observed correlations are statistically significant, meaning that the likelihood of these results occurring by chance is extremely low. Therefore, we conclude that there is a significant and strong association between the sources and accessibility of funding and the operations of mortgage banks in Northeast Nigeria. The funding constraints significantly affect housing delivery in the region. For instance, the inability to secure affordable financing leads to delays in project execution and an increased cost of housing, making it inaccessible to low- and middle-income earners while, Mortgage banks in Northeast Nigeria report declining profitability due to high operational costs and non-performing loans, which undermines investor confidence and further restricts access to capital markets. This supports the hypothesis that a meaningful relationship exists between these factors.

4.1 Findings and Discussion

The analysis of funding sources and accessibility reveals a significant impact on mortgage bank operations. The results from the Chi-Square tests (Pearson $\chi^2 = 2166.30$, $p < 0.001$) indicate a statistically significant association between funding accessibility and bank operations. Additionally, the high correlation coefficients (Pearson's $R = 0.935$, Spearman's $\rho = 0.936$) confirm a strong positive relationship between these variables.

The data also shows that the majority of funding is sourced from commercial banks (54.2%) and international aid (17.2%). However, nearly 60% of respondents perceive funding accessibility as "very limited." This underscores a critical issue in funding accessibility, which constrains mortgage banks' ability to secure long-term financing and sustain their operations.

The study identifies three primary sources of funding constraints:

- Inadequate Capitalization: Most mortgage banks in the region lack sufficient equity capital, which limits their ability to raise funds from external sources.
- High Cost of Borrowing: With interest rates averaging 15-20%, mortgage banks find it challenging to secure affordable loans, thereby increasing the cost of mortgage financing (CBN, 2023).
- Limited Access to Mortgage Refinancing: The Nigerian Mortgage Refinance Company (NMRC), established to provide liquidity to the sector, has had limited impact due to bureaucratic inefficiencies and inadequate capitalization.

5. Policy Recommendations

To address these challenges, the following measures are proposed:

- **Enhancing Government Support**: Expanding government-backed refinancing schemes to provide affordable long-term funding to mortgage banks.
- **Developing Alternative Funding Sources**: Encouraging public-private partnerships (PPPs) and the issuance of green bonds to attract investment into the housing sector.
- **Improving Regulatory Frameworks**: Strengthening the capacity of regulatory institutions to monitor and support the mortgage banking sector effectively.
- **Financial Infrastructure Development**: Establishing specialized housing finance institutions to bridge the funding gap and promote financial inclusion.

6. Conclusion

Funding constraints remain a significant barrier to the effective functioning of mortgage banks in Northeast Nigeria. Addressing these challenges requires coordinated efforts by stakeholders, including policymakers, financial institutions, and international development partners. Implementing the proposed policy measures will not only enhance the performance of mortgage banks but also contribute to resolving the region's housing crisis.

Suggestions for further Studies

Comparative Analysis of Regional Funding Constraints: Explore funding challenges faced by mortgage banks in other regions of Nigeria to identify similarities, differences, and regional best practices for overcoming these challenges.

Impact of Alternative Financing Sources: Investigate the role of alternative financing methods, such as crowdfunding, public-private partnerships (PPPs), and microfinance, in mitigating funding constraints for mortgage banks in Northeast Nigeria.

Digital Innovations and Funding Accessibility: Examine the impact of digital financial platforms and fintech innovations on improving access to funding for mortgage banks in the region.

Role of Government Policies and Regulation: Assess the effectiveness of government policies, incentives, and regulatory frameworks in addressing funding constraints for mortgage institutions in Nigeria.

Effects of Security Challenges on Mortgage Financing: Study the interplay between regional security challenges and funding access, focusing on how insecurity deters investment and loan recovery in mortgage banks.

Appendix

Descriptive Table

S/N	Variable	Category	Count	Percentage
1.	Gender	Male Female	742 458	61.8% 38.2%
2	Age	Under 25 25-34 35-44 45-54 55 above	214 342 285 221 138	17.8% 28.5% 23.8% 18.4% 11.5%
3	Position	Management Operations Risk Management Others	161 486 297 256	13.4% 40.5% 24.8% 21.3%
4	In your opinion, how would you rate the current security situation in Northeast Nigeria?	Very insecure Insecure Neutral Secure Very Secure	627 459 36 43 35	52.3% 38.3% 3.0% 3.6% 2.9%
5	To what extent have security challenges affected the operations of mortgage banks in Northeast Nigeria? (e.g., delays in loan processing, increased operational costs)	Significantly Moderately Slightly Not at all	647 508 31 14	53.9% 42.3% 2.6% 1.2%
6	How do security challenges influence investor confidence in the real estate market in Northeast Nigeria?	Major deterrent Moderate deterrent Minor deterrent No deterrent	823 262 94 21	68.6% 21.8% 7.8% 1.8%
7	What impact have security challenges had on property values in Northeast Nigeria?	Decreased significantly Decreased moderately Slightly decreased No significant impact Increased	750 307 103 31 9	62.5% 25.6% 8.6% 2.6% 0.8%
8	In your experience, what are the specific security challenges faced by mortgage banks operating in Northeast Nigeria? (Select all that apply)	Kidnapping Vandalism Extortion Political Unrest Others	707 698 432 727 552	22.7% 22.4% 13.9% 23.3% 17.7%
9	Where do mortgage banks primarily source their funding in Northeast Nigeria? (Select all that apply)	Commercial banks Government grants International aid or loans Private investors Capital markets Other	650 151 206 107 45 41	54.2% 12.6% 17.2% 8.9% 3.8% 3.4%
10	How would you describe the accessibility of funding options for mortgage banks in the region?	Very limited Limited Adequate Abundant	712 406 82 0	59.3% 33.3% 6.8% 0.0%
11	In what specific ways do infrastructure deficits impact real estate investment decisions in the region? (Open-ended) (Infrastructure deficits in Northeast Nigeria Significantly)	Increased Security Risks Limited Market Reach	601 239	50.1% 19.9% 20.5%

		Financing challenges Slower Property Appreciation	246 114	9.5%
12	In what ways do infrastructure deficits (e.g., electricity, water supply, road networks) hinder real estate development in Northeast Nigeria?	Significantly Moderately Slightly Not at all	765 320 115 0	63.7% 26.7% 9.6% 0.0%
13	How do infrastructure deficits affect the sustainability and growth of the mortgage banking sector in the region?	Major impact Moderate impact Minor impact No significant	713 298 133 56	59.4% 24.8% 11.1% 4.7%
14	What strategies have mortgage banks adopted to mitigate the effects of infrastructure deficits on their operations? (Open ended)	Risk assessment Product innovation Partnership Technology adoption Staff training Diversification	242 294 263 206 229 256	16.2% 19.7% 17.7% 13.8% 15.4% 17.2%

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