

# HOUSING FINANCE INTERNATIONAL

The Quarterly Journal of the International Union for Housing Finance



- ➔ **House prices plummet in Sydney: the financialisation of housing comes unstuck**
- ➔ **Public rental housing in Korea: issues and policy implications**
- ➔ **Mutual homeownership: a route for permanently affordable community-led housing**
- ➔ **Community-led shared equity housing in the UK and in the US; lessons shared across the pond**
- ➔ **Borrowing constraints in homeownership and improvements in a Lagos housing sub-market**
- ➔ **Review of “Finance and philosophy: why we are always surprised”, by Alex J. Pollock**



# International Union for Housing Finance

## Housing Finance International

Housing Finance International is published four times a year by the International Union for Housing Finance (IUHF). The views expressed by authors are their own and do not necessarily represent those of the Editor or of the International Union.

### IUHF OFFICERS:

#### → President:

ANDREAS J. ZEHNDER,  
Germany

#### → First Deputy President:

CAS COOVADIA,  
South Africa

#### → Executive Committee Members:

JOHANN ERTL, Austria  
RAMON SANTELICES, Chile  
JIRI SEDIVY, Czech Republic  
JUKKA HELMINEN, Finland  
RENU SUD KARNAD, India  
KAPIL WADHAWAN, India  
EARL JARRETT, Jamaica  
HERBERT PFEIFFER, Slovakia  
OSCAR MGAYA, Tanzania  
CHATCHAI SIRILAI, Thailand  
LYNN FISHER, United States of America

#### → Secretary General:

MARK WEINRICH  
E-mail: weinrich@housingfinance.org

#### → Publisher:

MARK WEINRICH

#### → Editor:

ANDREW HEYWOOD

ISSN: 2078-6328

Vol. XXXIII No. 4

#### → Subscriptions:

Individual Regular Annual Rate €135;  
Individual Three-Year Discounted Rate €360.  
Institutional Regular Annual Rate €155;  
Institutional Three-Year Discounted Rate €420.

For further details, please contact Mark Weinrich  
(weinrich@housingfinance.org)

## Contents:

- 4 ..... Editor's introduction  
5 ..... Contributors' biographies

### REGIONAL NEWS ROUND-UPS

- 7 ..... **Asia Pacific**  
Zaigham Rizvi  
13 ..... **Europe**  
Mark Weinrich  
14 ..... **Latin America & the Caribbean**  
Claudia Magalhães Eloy  
17 ..... **North America**  
Alex Pollock

### ARTICLES

- 19 ..... **House prices plummet in Sydney: the financialisation of housing comes unstuck**  
Alan Morris  
25 ..... **Public rental housing in Korea: issues and policy implications**  
Seung Dong You  
32 ..... **Mutual homeownership: a route for permanently affordable community-led housing**  
Residents of Lilac Grove  
38 ..... **Community-led shared equity housing in the UK and in the US; lessons shared across the pond**  
Eliza Platts-Mills  
45 ..... **Borrowing constraints in homeownership and improvements in a Lagos housing sub-market**  
Basirat Oyalowo, Oluwaseun Muraina, Timothy Nubi ,  
Taofeeq Okegbenro  
54 ..... **Review of "Finance and philosophy: why we are always surprised", by Alex J. Pollock**  
Reviewer Peter Williams



### International Union for Housing Finance

Rue Jacques de Lalaing 28, B 1040-Brussels - Belgium

Tel: +32 2 231 03 71

Fax: +32 2 230 82 45

www.housingfinance.org

Secretary General: Mark Weinrich

Copyright © 2017 International Union for Housing Finance

# Borrowing constraints in homeownership and improvement in a Lagos housing sub-market

↳ By Basirat A Oyalowo, Oluwaseun Muraina, Timothy Nubi, Taofeeq Okegbenro

## 1. Introduction

Home-ownership acquisition and improvement require more funds than a typical household can reasonably afford without having shortfalls in other expenditure areas such as health, education, clothing, entertainment and so on. This is because unlike other investments, housing is acquired at rates far above household income, and once acquired, it has to be maintained and improved continuously to achieve realistic returns on investment, capture and protect increased property values while also bringing both social comfort and returns to its owners as the case may be. But its acquisition and maintenance also add to housing costs and may increase the financial burden on low-income earners (Office of Policy Development and Research, 2006). However, while housing affordability has been a constantly highly topical issue amongst researchers, housing providers and policymakers alike, the problems associated with continuously improving the home to ensure wealth capture remain relatively obscure, especially as they affect lower-income households who carry out self-construction in incremental stages that often last the lifespan of the home being constructed (Muraina, 2017). The ability to carry out housing improvements affects the economic, physical and social performance of the housing and also has an impact on behaviours and action. Nubi (2008) asserting this fact maintained that the quality of a home's microenvironment is also one of the best indications of a person's standard of living and of his or her place in the society.

However, affordability and access to housing finance for home acquisition also predetermines the ability of households to maintain and improve such homes over the property lifecycle. Reliance on long term credit to purchase homes

has been the most common way to access housing funds, whether through mortgages in the formal housing market or through informal channels as is found in less developed housing markets. Where there are borrowing constraints, households are forced to live where the terms are lower even if not in good conditions, and this, in turn, affects the quality and quantity of housing services they consume (Acolin, Bricker, Calem and Wachter, 2016). Housing finance, therefore, occupies a central place in both homeownership and improvement. Indeed, previous researchers such as Haurin, Hendershott and Wachter (1996) show that wealth and income constrained households are less likely to be home-owners and that these are more likely to be young households and first time buyers, and with specific reference to the American housing market, are more likely to be minority households (Gyourko, Linneman and Wachter, 1999 in Acolin et al, 2016). Studies have also found that low-income and minority households are less likely to invest in home improvements (Office of Policy Development and Research, 2006). This article responds to these concerns by providing a dual assessment of the borrowing constraints associated with both homeownership and improvement in a submarket of the Lagos residential market.

The key questions this study answers are: how do borrowing constraints affect housing affordability and accessibility in the Lagos housing market and what can be done about this? Secondly, what is the willingness of households to take on non-mortgage loans for improving their homes after purchase or construction as the case might be? It answers the first question by examining the borrowing constraints faced by households in accessing housing finance through mortgages, and for the same submarket, answers the second question by examining

the willingness of households to utilize credit for home improvement. By examining these seemingly separate issues together, it is the authors' intention to query the extent to which credit markets realistically work for households for both homeownership and maintenance in the study area.

## 2. Home ownership

Home ownership has undoubtedly been the tenure of choice for most government policies and for the majority of households in the world today. A number of benefits have been associated with it: wealth creation, greater residential stability/security, and better-quality housing/home environment, better quality neighborhood, heightened sense of control and accomplishment and improved health and life chances (Nubi, 2015). Better maintenance of property and better neighbourhood quality are also attributed to homeownership (Nubi, 2015; Harding, Miceli and Simans, 2000). Notwithstanding, there are negative externalities: mobility restrictions, mortgage payment stress and foreclosure, home maintenance and repair stress. Acolin, Goodman and Wachter, (2016) note that increasing income, favourable mortgage terms, favourable age structure, early household formation, and declining transportation costs are all factors that promote homeownership in the US market in particular, although these are generally applicable in other markets as well. However, government policy support remains a significant driver. Due to this, homeownership rates vary widely across countries as well as regionally within a country. The United Nations Human Settlements Programme has clearly compared the cost of home ownership in developed and developing economies. According to them, the cost of a

home can be 2.5 to 6 times the average annual salary of a worker in a developed economy, while the average cost of a decent low-income family house in a developing nation is more than 10-times the average annual salary of a worker.

### 3. Home improvement

Households are motivated to improve their homes to enhance their neighbourhood quality, make the home more liveable, or by the ability to carry out the repairs. Home improvement can be classified thus:

- (i) Emergency: activities such as correcting a damaged septic tank, fire damage, leaking roof, etc.
- (ii) Common Maintenance: repainting works, redecoration, etc.
- (iii) Renovations: Such activities are in response to issues like a changing family need etc. and
- (iv) Improvements: These are activities undertaken to make the house more “liveable”.

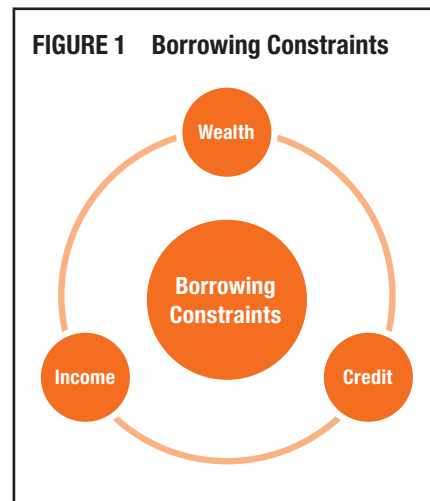
In the context of low-income submarkets in cities of developing countries, home improvements are particularly important as they take place within the context of incremental construction. Incremental construction involves the self-financed construction of a portion of the house (usually a sitting room and a bedroom, kitchen, toilet, and bathroom) in the first instance and continuous additions to the ‘core’ unit over time.

### 4. Borrowing constraints

Acolin, Goodman and Wachter (2016a) note that households’ decision to own or rent is affected by household characteristics such as income (determined in part) by skills, age, and household size, the user cost of owning relative to renting as well as mobility considerations. Another important factor, which is the focus of this paper, is the existence of borrowing constraints, which affect tenure outcomes by delaying or preventing access to decent homeownership. Acolin, Bricker, Calem and Wachter (2016b) actually note that borrowing constraints are non-price tools that enable lenders to manage the risks associated with mortgage finance which are especially useful in the face of imperfect market information. They are quick to note however that it impacts the ability of households to become homeowners, suggesting that lifting these constraints would improve individual households’ welfare.

There are three major borrowing constraints that limit access to mortgages: wealth or

down-payment constraint (through maximum loan to value ratio), income (through mortgage repayment to income ratio); and credit (through minimum credit score). The down-payment constraint is such that to purchase a particular property the household requires (liquid) wealth equal to some fraction of the purchase price. It is more visible amongst low-income first-time buyers. Income constraints reduce the ability of households to retain their homes after purchase, and also reduce disposable income for other expenses. On the other hand, where households pay a larger share of their income on rental costs; this reduces their discretionary income and limits their ability to save for a down payment (Acolin et al, 2016b). As shown by Mian and Sufi (2009), low credit scores serve as indicators of borrowing difficulty. Collectively and to varying extents, individually, they affect households’ ability to acquire their housing preference (Acolin, Bricker, Calem and Wachter (2016b). They are depicted in figure 1.



In their work, Acolin et al (2016b) show how these constraints can be relaxed significantly through government actions, financial innovations, and market pressures and how the reactions of financial markets can act to re-instate these constraints in a way that could lead to financial instability. Through an analysis of the US housing market, the authors also show how different mortgage lending regimes characterized by differing borrowing constraint conditions led to differing homeownership outcomes. In the post-World War II era, institutional shifts and mortgage product innovation increased access to mortgages and homeownership. However, between 2000 to 2010, changes in the mortgage market led to house price volatility, due to significant easing and then tightening of access to credit and this has led to a significant decline in homeownership rates.

Researchers such as Rosenthal (2002) and McCarthy and Wachter (2003), assert that wealth, income and credit quality constraints are known to affect home-ownership decisions in mortgage loans for vulnerable households such as younger families, low-income and minority households. This is because households’ decisions to enter the mortgage market hinge on whether they can afford the down-payment for a decent home and at the same time, whether they would qualify for a loan based on their current credit ranking. Their ability to pay a down payment is directly related to their income. However, researchers have shown that wealth constraints restrict access to home ownership to a greater extent than income and credit quality constraints. In reviewing US mortgage contracts, Caplin et al (1997) state that ‘it is almost impossible to buy a home without available liquid assets of at least 10% of the home’s value’. Wealth is needed both to meet mortgage requirements for a down-payment and to pay for closing costs and Rosenthal (2002) show that removing wealth constraints would increase the homeownership rate by about 6%.

In developed countries, the response towards removing credit rating constraints for credit impaired households has been subprime lending and other forms of flexible lending regimes. While access to credit rankings are readily available for lenders in more matured markets that facilitate the recognition of credit-impaired households and official response to same, the situation in emerging markets such as in Nigeria is not quite the same. There are credit bureaus but the extent of their coverage of the borrowing public cannot be assured due to the level of informality in borrowing activities that ensure that these activities are not captured. In these markets, borrowing for homeownership and improvement occurs not through financial institutions, but through friends, family, and informal associations. Previous studies (Lawanson and Oyalowo, 2016) show a reliance on co-operative societies, but these are often categorized as ‘informal’ sources, even though they keep extensive records of borrowing, payback and default activities of their members. All this information has not been captured and harmonized into datasets that can help grow credit ratings sufficiently. Thus, households that rely solely on co-operative society funds will not be captured in formal credit bureaus and this will disqualify them from accessing mortgages.

However, it has been argued and researchers have provided evidence that the wealth constraint has the highest impact on accessing mortgages. Researchers like Bostic and Surette (2001) argue that where markets or governments are able to intervene through innovation or regulation, a system may develop where-by



low down-payment mortgages may evolve to ensure that lower-income households are able to access mortgage lending. An example of this in the United States is the 'HOME Investment Partnerships Program' enacted in the American Dream Down-payment Act of 2003 to provide down-payment assistance of up to \$10,000 to enable low-income American households to achieve homeownership. In some other economies, interventions such as this have produced a situation where down payments are as low as zero percent. However, this often creates other problems. Income constraints could occur by increasing the debt to income ratios because high loan to value ratios are usually applied to such loans. This increases foreclosure rates for low-income and minority households that are exposed to these arrangements.

Research conducted for the US Office of Policy Development and Research (2006) shows foreclosure rates are particularly high, occurring in one to ten borrowers when no deposit loans occur within sustained periods without any house price growth. All of these creates a large share of homeowners with little equity in their homes, increases the risk profile of households and result in a situation where close to 29% of first-time buyers are unable to retain their homeownership for more than 5 years. If this is the case in developed countries, the consequences for primate cities like Lagos are very inimical.

### 5. Homeownership financing, borrowing constraints and mortgage markets

In the last century, the development of mortgage markets has been the principal form through which long term debt financing for housing has been achieved. McCord et al (2011) observe that the mortgage market has been successfully used in the UK as a tool for expanding homeownership. Acolin, Goodman and Wachter, 2016 observe that between the 1940s and the 1960s, the U.S. homeownership rate increased by nearly 20 percentage points, from mid-40 to mid-60%, and attributed this to the introduction of self-amortizing 30-year, fixed-rate mortgage, introduced by the Federal Housing Administration/Veterans Administration (VA – now the U.S. Department of Veterans Affairs). This, the authors asserted, transformed the United States from a nation of renters to a nation of homeowners, but conversely tightening of mortgage credit has so far played a substantial role in the decline in homeownership since the 2015 period.

The view that the mortgage market may not be the appropriate channel for low-income housing finance finds credence in several research findings both across developed and developing countries. Tomlinson (2002) argues that for South African low-income earners, mortgage lending is not the appropriate route for lending. Karley (2002) asserts that the average cost of a decent low-income family house (50 million cedis) is more than 10 times the average annual salary of most key workers in Ghana. The author laments the inability of the Ghanaian market to supply loans in an atmosphere where the 'financial, legal and economic systems do not possess adequate measures to support the mortgage lending process.' Deininger (2003) and Aluko and Amidu (2006) note that in developing countries, upwards of 80% of housing finance transactions take place in the informal economy. The acquisition of loan funds from formal sources hinges on a healthy savings culture. In an environment of low and insecure incomes, rising prices of building materials, land and services, fluctuating interest rates and high inflation; the propensity to save is limited. Jones and Datta (2002) show that there is a low propensity to save in the poorest countries and within this, the poorest households have the lowest propensity to save. All these factors ensure that the primary mortgage sector remains undeveloped; with the fund suppliers unwilling to generate the appropriate products to match the low-income category; while the informality embedded in the informal sector ensures that demand is static.

McCord et al (2011) observe that even in developed countries, lower income groups are more adversely affected by economic circumstances resulting in mortgage repayment difficulties and reduced ability to enter the market at an affordable point. Benito (2006) researched how the down-payment required for mortgage loans constrains affordable housing in the United Kingdom. The author noted that the down-payment constraint helps in influencing price response to shocks as the presence of households with negative equity and high loan to value ratios amplify the effect of income shock on house prices. In a similar study, McCord et al (2011) seek to show the relationship between housing affordability and mortgage finance by examining how the effects of liquidity and credit constraints in the mortgage market have influenced housing affordability in Northern Ireland between 1993Q and 2009Q4. Findings reveal that according to all adopted affordability measures, first-time buyers remain at the threshold of being priced out of the Northern Ireland housing market. In the US, several recent studies have provided evidence from panel studies tracking households over time to examine the homeownership retention capacity of low-income

households. It was found that 40% of first-time buyers could no longer own their residence five years after they first purchased. The proportion of low-income minority first-time buyers in this category was between 22 and 29% higher than the proportion of low-income whites (Office of Policy Development and Research, 2006).

However, some scholars are of the opinion that mortgage loans could be made available to low-income households by structuring them in such a way as to make them affordable. This is based on the argument that making affordable home mortgage loans available to a large cross-section of the population will serve to reduce poverty by serving redistributive and growth-enhancing objectives.

The role of households' credit impairment and lack of credit history in addition to wealth and income constraints in mortgage markets have been extensively examined by Calem et al (2010) and Barakova et al (2003). Barakova et al measure the relative importance of credit, income, wealth-based constraints and estimate how the effects of these constraints have evolved over the past decades. Findings showed that borrowing constraints, particularly wealth and credit quality constraints, significantly reduce the likelihood of whether individuals and households opt to own a home. The wealth constraint has the largest impact in the US in the 1990s, despite many government programs offering down-payment assistance. However, this has given way to credit quality constraints in the post-1990 period. Credit quality constraint is being addressed with sub-prime lending. Calem et al's study shows that actual homeownership rate of low-income households is 52% compared to 71% of the entire population. Financing constraints, therefore, account for nearly half the difference in homeownership rates. On the other hand, Rodriguez-Planas (2018) argued that informal institutional constraints (culture or social norms) could very well be a significant constraint, especially among migrant households.

In general, therefore, the foregoing studies have shown that there are cases of the limitations in the use of mortgages as a source of housing finance for low-income households. In developed countries, subprime lending has emerged as a tool to control this. In developing countries, the response has not been subprime lending to enable access to mortgage loans, rather it has been lack of development of suitable products for the benefit of the households. In a situation where a significant proportion of households are in the subprime category, the long-term impact has been the self-financed construction of mainly substandard housing in low-quality

neighbourhoods; thus, emerge the ubiquitous slums that are so predominant across African cities, with Lagos being no exception.

**6. Methodology**

The Study Area is Bariga, a mixed district and suburb in Lagos State, Nigeria. It was formerly under the Somolu local government area of Lagos State but in 2013 it was upgraded by the state government as a Local Council Development Area headquartered in Gbagada. The target populations of the study area are the aspiring homeowners and homeowners who are currently resident in Bariga LCDA, Lagos state. Thus, data collection was on two sample populations; home seekers currently residing in Bariga to answer the question of accessibility of mortgage loans and homeowners in Bariga to answer the question of willingness to take a loan. The study narrative is therefore built around the borrowing constraints of home-seekers and the ease of access to credit by people who already owned their homes.

The design exploits a quantitative approach which involves a household survey with data collected using structured questionnaires. This approach was adopted to ensure ease of relevant data from the targeted households.

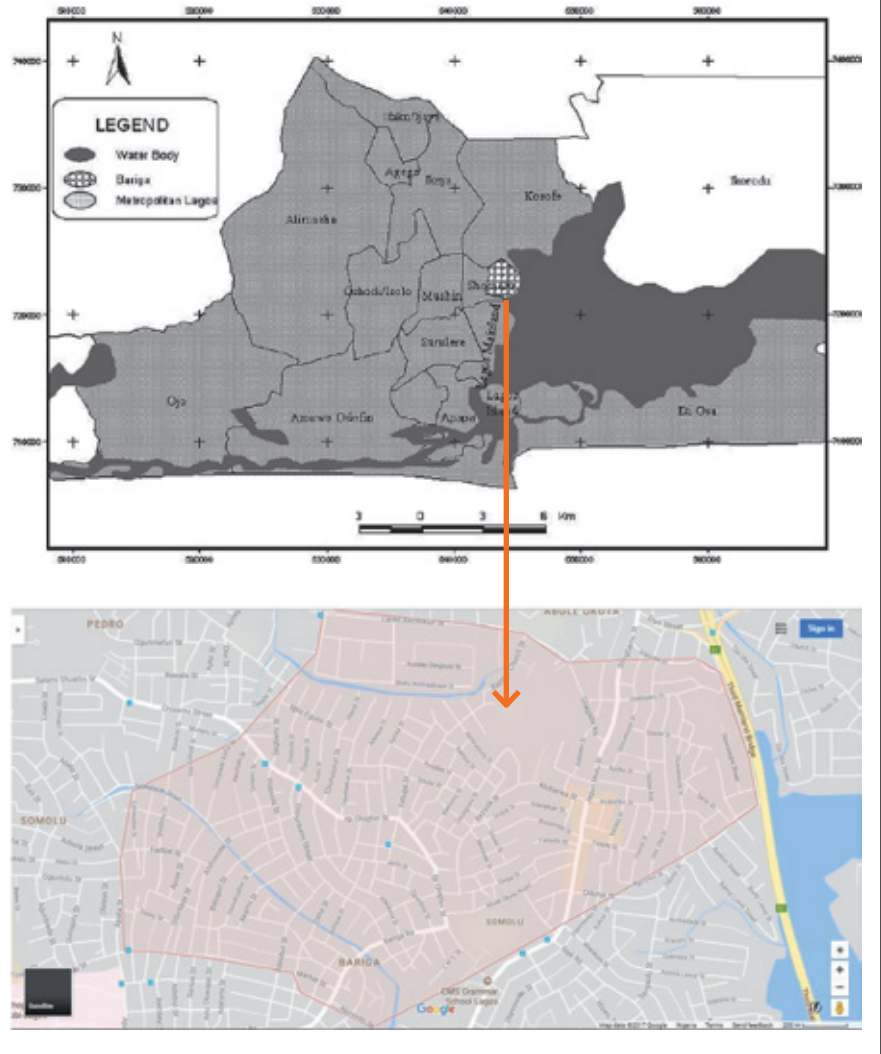
**6.1. Borrowing constraints in homeownership**

For this aspect of the study, a survey of 80 randomly selected households was carried out. The questionnaires used in the survey were self-administered by interviewing the respondents and their answers were noted appropriately. This is to improve understanding of technical terms that might not be understood by respondents on account of literacy.

**6.2. Borrowing constraints in home-improvement**

For this aspect, the research addressed two study populations; financial institutions believed to offer home improvement loans and homeowners resident in the Bariga area of Lagos State, Nigeria. Empirical data was obtained through the administration of structured questionnaires. A total number of 174 questionnaires were administered to the homeowners while 6 questionnaires were administered to the finance institutions using random and purposive sampling methods respectively. The number of houses in the population of the study area is 5528 which is the sample frame of the study. Evan Morris (2007) model was adopted to determine the sample size of 174.

**FIGURE 2 Location of Bariga; the study area**



**7. Findings**

**7.1. Borrowing constraints on homeownership**

the respondents are paying below N 200, 000 as rent, 37.5% are paying N201,000 – N500,000 as rent, 20.0% are paying N501,000 – N800,000 as rent while 8.8% are paying above N800,000 as rent. This reveals that the majority of the respondents in the study area pay between N201, 000 – N500, 000 as rent.

**TABLE 1 Rent paid on housing in the study area**

S/N	Rent Passing (N)	Frequency	Percentage
1	Below 200,000 (\$555)	27	33.8
2	201,000-500,000 (\$558-\$1388)	30	37.5
3	501,000-800,000 (\$1390-\$2221)	16	20.0
4	Above 800,000 (\$2221)	7	8.8
<b>TOTAL</b>		<b>80</b>	<b>100.0</b>

Source: Field survey, 2018

Table 1 shows annual rent passing on the properties in the study area. It shows that 33.8% of

**TABLE 2 Level of income of respondents**

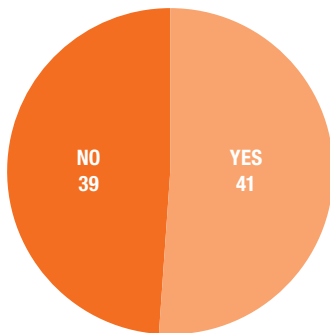
S/N	Income (N)	Frequency	Percentage
1	Below 40,000 (\$111)	10	12.5
2	40,000-80,000 (\$111 - \$222)	21	26.3
3	81,000-100,000 (\$224 - \$277)	28	35.0
4	Above 100,000 (\$277)	21	26.2
<b>TOTAL</b>		<b>80</b>	<b>100.0</b>

Source: Field survey, 2018

Table 2 shows the level of income of the respondents in the study area who are mostly artisans. It indicates that 12.5% earn below N40,000 as income, 26.3% earn N40,000 – N80,000 as income, 35.0% of the respondent earn N81,000 – N100,000 as income, 26.2% earn N101,000 and above as income. The majority of the respondents earn between N81, 000 – N100,000.

**FIGURE 3** Ranking of constraints that least affect access to housing credit facilities

ACCESS TO HOUSING CREDIT FACILITIES



Source: Field survey, 2018

Figure 3 shows that 51.3% of the respondents have access to different kind of housing credit facilities and 48.7% have no access.

Table 3 shows the least constraining factors that inhibit respondents' access to housing credit facilities. It indicates that limits on re-financing is ranked 1<sup>st</sup> as the constraint that has less effect on respondent access to housing credit facilities, Difficulty in borrowing against older homes is ranked 2<sup>nd</sup>, Limits on borrowing for investment homes is ranked 3<sup>rd</sup>, inflexible repayment schedule is ranked 4<sup>th</sup>, Payment-to-income constraint is ranked 5<sup>th</sup> and Deposit constraint is ranked 6<sup>th</sup>. this implies that down-payment constraints and payment to income constraint are the constraints that most affect respondents access to housing credit facilities.

Table 4 shows the type of accommodation occupied by the respondents in the study area. According to the analysis, it indicates that (18%) of the respondents live in a tenement building which is considered to be the cheapest accommodation type in the area. (33.7%) of the respondents live in mini flats and it is seen as the commonest property type in the area because people desire to have their conveniences for themselves alone. Few (2.5%) of the respondents live in detached housing. One of the reasons is that it is expensive, and the property type is scarce in the area, so also with duplex- type

**TABLE 3** Ranking of constraints that least affect access to housing credit facilities

S/N	CONSTRAINTS	YES	NO	MEAN	RANK
1	Deposit constraint	37	43	1.5375	6 <sup>th</sup>
2	Payment-to-income constraint	34	47	1.5750	5 <sup>th</sup>
3	Inflexible repayment schedule	25	55	1.6875	4 <sup>th</sup>
4	Limits on re-financing	11	69	1.8625	1 <sup>st</sup>
5	Limits on borrowing for investment homes	17	63	1.7875	3 <sup>rd</sup>
6	Difficulty in borrowing against older homes	16	64	1.8000	2 <sup>nd</sup>

Source: Field survey, 2018

**TABLE 4** Type of accommodation occupied by respondents in the study area

S/N	Type of Accommodation	Frequency	Percentage
1	Tenement Building	15	18.8
2	Mini Flat	27	33.7
3	Detached Building	2	2.5
4	Duplexes	2	2.5
5	2 Bedroom Flat	11	13.8
6	3 Bedroom	19	23.7
7	Maisonet	4	5.0
<b>TOTAL</b>		<b>80</b>	<b>100.0</b>

Source: Field survey, 2018

**TABLE 5** Level of satisfaction with current housing of respondents

S/N	Level of satisfaction	Frequency	Percentage
1	Very satisfied	14	17.5
2	Satisfied	11	13.8
3	Neither	14	17.5
4	Dissatisfied	39	48.7
5	Very dissatisfied	2	2.5
<b>TOTAL</b>		<b>80</b>	<b>100.0</b>

Source: Field survey, 2018

properties. (13.8%) of the respondents live in 2-bedroom flats with their family. (23.5%) of the respondents live in 3-bedroom flats with their family. While the remaining (5.0%) of the respondents live in maisonettes.

Table 5 shows that (17.5%) of the respondents are more than satisfied with their accommodation type as they get everything they desired from it and cannot vacate because they are rather attached to it. Further, 13.8% of the respondents said they are satisfied with their current accommodation type as their needs are met. (17.5%) of the respondent don't know if they are satisfied with their current housing

**TABLE 6** The Desired type of accommodation of respondents

S/N	Type of Accommodation	Frequency	Percentage
1	Detached Building	9	11.3
2	Duplexes	12	15.0
3	2 Bedroom Flat	5	6.3
4	3 Bedroom Flat	21	26.3
5	Mansion	33	41.3
<b>TOTAL</b>		<b>80</b>	<b>100.0</b>

Source: Field survey, 2018

**TABLE 7** Access to housing financial support made available by the Government

S/N	Response	Frequency	Percentage
1	Yes	27	33.7
2	No	53	66.3
<b>TOTAL</b>		<b>80</b>	<b>100.0</b>

Source: Field survey, 2018

or not but they wish for another better home. (48.7%) of the respondent are dissatisfied with their current housing. They wish to live in better housing and a good environment, but they are financially constrained and their dream of living in their own choice of housing cannot be realized. (2.5%) of the respondents are very dissatisfied with their current housing.

Table 6 shows the type of accommodation desired by the respondents, it shows that only (11%) desired to live in a detached building outside the study area, (15%) respondents desired to live in a duplex, few of the respondents (6.3%) desired to live in a 2 bedroom flat, (26.3%) of the respondents desired to own and live in a 3 bedroom flat outside the study area, while (41.3%) of the respondents dream house is a mansion with multiple rooms and conveniences with enough space for different activities.



Table 7 shows that (33.7%) of the respondents have access to different housing supports made available by the government and (66.3%) have no access to these supports due to unavailability of these support or strict requirements to get one.

Figure 4 shows the different means by which respondent get support to finance their housing needs. It indicates that the least means for housing support is social housing by government which is ranked 1<sup>st</sup>, pension is ranked 2<sup>nd</sup> on the list, Workmates is ranked 3<sup>rd</sup> on the list, Mortgages is ranked 4<sup>th</sup> on the list, housing loans is ranked 5<sup>th</sup>, cooperative society is ranked 6<sup>th</sup>, financial support from friends is ranked 7<sup>th</sup> on the list and financial support from relatives is ranked 8<sup>th</sup>. This implies that the most significant support the respondents get for financing their housing choice is from relatives, friends and co-operative societies.

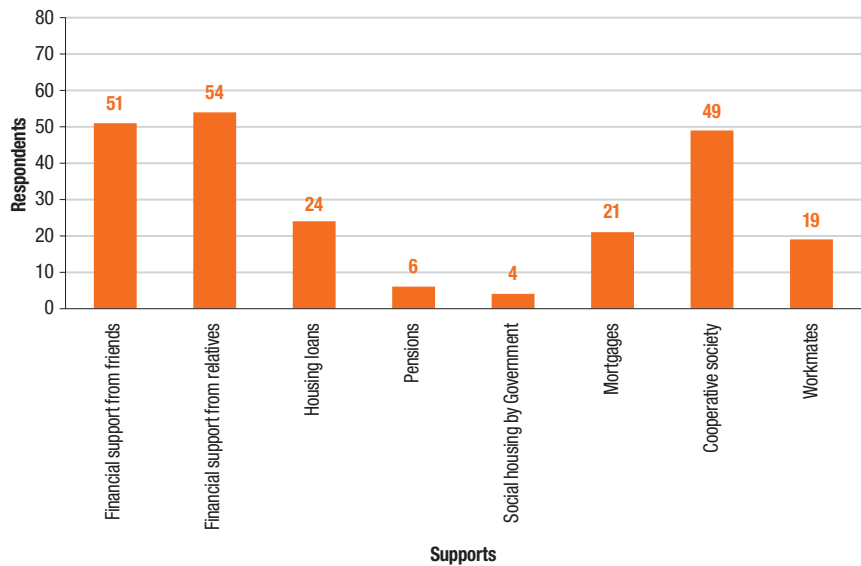
Table 8 shows that (5.0%) of the respondents just started living in their accommodation during the last year, (35.0%) of the respondents have been living in the same accommodation for over 3 years, (40%) of the respondents have been living in the study area for more than 8 years but might have changed accommodation within the same area, (20%) of the respondents have lived in the area for more than 10 years and they are not hoping to vacate anytime soon because of their reluctance to leave a neighbourhood where they had built strong social and economic networks over time.

Figure 5 shows that (83.8%) of the respondents save a particular percentage of their monthly income for different purposes and the majority of the respondent reason for saving is to pay for their rent at the end of the year or purchase an accommodation type of their choice, while (16.2%) of the respondents do not save due to the low income they are earning and some other factors. In respect to the collation of the results gathered with the questionnaire, 80% of the respondent put 30% of their monthly salary into savings in order to meet up their objectives.

Table 9 shows a list of reasons why Government's efforts to intervene in housing provision in Nigeria with particular regard to low-income earners have been largely unsuccessful and respondents were told to indicate their level of agreement with the proffered statements. Wrong perception of low-income earners housing needs and the fact that the loans scheme do not adequately provide for the low-income housing needs and the statement that small numbers of homes are provided for low-income earners is ranked 1<sup>st</sup> on the list, while improper planning and poor execution of housing schemes and failure to stimulate the private sector are ranked 2<sup>nd</sup> and 3<sup>rd</sup> respectively.

**FIGURE 4 Rate of receiving financial support for housing by the respondents**

RATE OF RECEIVING FINANCIAL SUPPORT FOR HOUSING BY THE RESPONDENTS



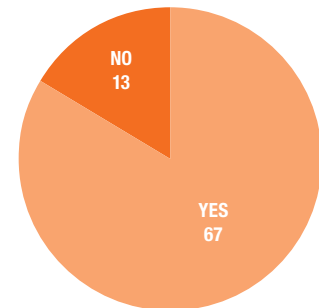
Source: Field survey, 2018

**TABLE 8 Duration of stay in the current accommodation of respondents**

S/N	Duration	Frequency	Percentage
1	0-1	4	5.0
2	1-4	28	35.0
3	5-9	32	40.0
4	10 years and above	16	20.0
<b>TOTAL</b>		<b>80</b>	<b>100.0</b>

Source: Field survey, 2018

**FIGURE 5 Do you have any form of savings?**



Source: Field survey, 2018

**TABLE 9 Reasons as to why Government efforts to intervene in housing provision in Nigeria have been largely unsuccessful with particular regard to low-income earners**

S/N	REASONS	SA	AG	UN	DA	SD	MEAN	RANK
1	Wrong perception of low-income earners	32	29	14	4	1	4.0875	1 <sup>st</sup>
2	Provision of few numbers of housing	29	33	15	2	1	4.0875	1 <sup>st</sup>
3	Failure to stimulate the private sector	21	38	20	1	0	3.9875	3 <sup>rd</sup>
4	Improper planning and poor execution	23	40	17	0	0	4.0750	2 <sup>nd</sup>
5	Loans scheme do not adequately provide for needs	21	39	16	4	0	4.0875	1 <sup>st</sup>

Keys: 5=SA- Strongly Agreed; 4=AG- Agreed; 3=UN- Undecided; 2=DA- Disagreed, 1=SD- Strongly Disagreed

Source: Field survey, 2018

## 7.2. Borrowing constraints on home-improvement

**7.2.1. Objective: To determine the extent to which home improvement financing is available and ascertain the terms and**

**conditions under which such financing is available.**

In actualizing this objective, a survey of nationally available home improvement financing options was reviewed to ascertain the terms

## Borrowing constraints in homeownership and improvement in a Lagos housing sub-market

and conditions under which formal financing is offered. These options are provided from Federal Government institutions and private sector financing institutions. Table 2.1 shows a description of each option, while table 2.2 summarises the criteria adopted by each.

**TABLE 10** showing the range of available options in the formal sector for home improve financing

Financial Institution	Category of Institution	Loan Product	Description
Federal Mortgage Bank of Nigeria	Federal Government	National Housing Fund Loans (NHF)	<b>NHF Loans through PMBs.</b> This product is granted at 4% interest to accredited Primary Mortgage Banks (PMBs) for on-lending at 6% to NHF contributors over a maximum tenor of 30years. A contributor can access up to 15million from the Fund through accredited PMI as loan to build, buy, improve or renovate own home after 6months of continuous contributions.
Federal Mortgage Bank of Nigeria	Federal Government	FMBN Home Renovation Loan (FHRL)	This is a product will afford Nigerians an opportunity to access mortgage loans for the renovation or improvement of their existing homes. The product is specifically designed for Nigerians who are contributors to the National Housing Fund and desire to renovate or improve existing properties.  It is proposed that FMBN will approve and disburse the Home Renovation Loans through the Federal Government Staff Housing Loans Board [FGSHLB] for Federal Civil Servants and through the Office of the Head of Service or any other body recognized by the Bank at the State level, in the case of State civil servants
Federal Housing Authority Mortgage bank [FHA]	Federal Government	Home Improvement Scheme	<b>Federal Housing Authority Mortgage bank [FHA]</b> FHA Mortgage Bank Ltd was incorporated by Federal Housing Authority [FHA] as wholly owned subsidiary on 18th June 1997 (RC: 314,882) and licensed to commence business as a Primary Mortgage Institution on 17th December 1998.  <b>The Home Improvement Scheme</b> is for individuals who intend to improve their home. The home must not be encumbered in any form of a facility
Haggai Mortgage Bank Limited	Private Sector	Haggai Renovation Loan (HAREL)	This product is designed to assist customers in renovating their properties so as to add value to same as well as beautifying their places of habitation while they also enjoy capital appreciation on their properties. It is available to employees of reputable organizations, business people with a regular income, corporate organizations, mission and mission related bodies.
TrustBond Mortgage Bank Plc.	Private Sector	—	<b>Home Improvement</b> This is a complementary product to the Housing Estate Improvement Account designed to enhance the interior individual residence such as: White Furnishing . renovations and upgrades etc.
Co-operative Societies	Social Enterprise	Home Improvement	This loan is available for individuals and organizations who want to renovate or complete an existing property

Source: Adapted from Muraina, 2017

**TABLE 11** showing the terms and conditions under which for formal home improvement financing is available

Financial Institution Criteria	National Housing Fund Loans through Primary Mortgage Banks	Federal Housing Authority Mortgage Bank's Home Improvement Scheme	Haggai Mortgage Bank Limited 's Haggai Renovation Loan (HAREL)	TrustBond Mortgage Bank Plc's Home Improvement	Federal Mortgage Bank of Nigeria's FMBH Home Renovation Loan (FHRL)	COOP's Home Improvement Loan
Age	✓	✓	✓	✗	✗	✗
Equity	✓	✓	✓	✗	✓	✗
Contribution Duration	✓	✗	✓	✗	✗	✗
Regular Income	✓	✗	✓	✗	✓	✓
Collateral	✓	✓	✗	✓	✗	✗
Surety or Guarantor	✗	✗	✗	✗	✗	✗
Approved Building Plan/other title Documents	✓	✗	✓	✗	✓	✓
Property Insurance	✓	✗	✗	✗	✗	✗
Mortgage loan originator	✓	✗	✗	✗	✗	✗
Maximum loan cap	✓	✗	✗	✓	✓	✗
Interest on loan	✓	✗	✗	✗	✓	✓
Minimum Repayment Period	✓	✓	✓	✓	✓	✓
Penalty in repayment Default	✗	✓	✗	✗	✗	✗

Source: Adapted from Muraina, 2017

## 7.22. Objective: To determine people's awareness of these home improvement financing options

**TABLE 12** Are you aware of any home improvement finance?

		Frequency	Percent
VALID	Yes	126	72.4
	No	48	27.6
<b>TOTAL</b>		<b>174</b>	<b>100.0</b>

Source: Muraina, 2017

**TABLE 13** If yes, what institutions do you know to give them? Kindly tick from the options given below (you can select more than one option)

		Frequency	Percent
VALID	National Housing Fund (NHF)	22	12.6
	Federal Housing Authority (FHA)	21	12.1
	Mortgage Banks	19	10.9
	Development Banks	22	12.6
	Commercial Banks	10	5.7
	Cooperative Societies	10	5.7
	NHF + FHA	45	25.9
	Mort. + Dev.	25	14.4
	<b>TOTAL</b>	<b>174</b>	<b>100.0</b>

Source: Muraina, 2017

**TABLE 14** How would you rate the ease of accessing these house improvement loans?

		Frequency	Percent	Cumulative Percent
VALID	Good	1	.6	.6
	Poor	74	42.5	43.1
	Very poor	99	56.9	100.0
<b>TOTAL</b>		<b>174</b>	<b>100.0</b>	—

Source: Muraina, 2017

## 7.23. Objective: To determine the willingness of homeowners to access a home improvement loan

**TABLE 15** showing the Paired Sample Test<sup>2</sup>

	PAIRED DIFFERENCES					T	df	Sig. (2-tailed)
	Mean	Std. Dvtn	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Are you aware of any home improvement finance? – How would you rate the ease of accessing these house improvement loans?	-3.287	0.695	0.053	-3.391	-3.183	-62.4	173	0.000
Are you aware of any home improvement finance? – Would you like to improve the current state of your property?	0.190	0.542	0.041	0.109	0.271	4.62	173	0.000

Source: Muraina, 2017

The t-statistics from table 4.3 is -62.367 and this is statistically significant at 5% as the asymptotic significance is less than 0.05 (0.00 < 0.005). This means that there is a significant relationship between how one would rate the ease of accessing house improvement loans and the willingness of one to improve the current state of their property. The implication of this is that the extent to which it is easy to assess the loan positively impacts on the willingness to improve the current state of the property. This implies that homeowners do not improve the state of their property because of the difficulties in assessing loans for such purposes.

## 8. Conclusions

Homeownership has been an important policy objective in the different economies for many years. It has been long recognized that there are a number of financing barriers that limit access to homeownership for some households. This paper enriches the understanding of the nature of these barriers and, by extension, the possibility for policy to have a measurable impact.

The study also reveals that home improvement loans indeed exist and that the mortgage banks are major sources of finance for hous-

ing improvement in Nigeria. The majority of the respondents are not very aware of home improvement finance as many of the respondents confuse general loans with funds obtained from the financial institutions for home improvements. Notwithstanding, the ability to access home improvement finances by low-income earners is still very limited. The study, therefore, recommends that access to home improvement finance be improved to enhance the chances of low-income earners in building houses that suit their economic status and also meet their needs. Promoting financial education and planning is one way to address the existence of credit

<sup>1</sup> From our field survey, the number of houses in the area is 5528. A random selection of 80 houses signifies a 1.5% coverage. It is recognized that statistically speaking, there is a limit to the generalization of this proportionate to the population. However, the data generated from the survey does not depart from findings in other studies with larger sample sizes that reflect the housing finance structure for low income households (see for example, Lawanson and Oyalowo (2016), Oyalowo (2017)).

<sup>2</sup> The paired sample t-test, sometimes called the dependent sample t-test, is a statistical procedure used to determine whether the mean difference between two sets of observations is zero. In a paired sample t-test, each subject or entity is measured twice, resulting in pairs of observations. Common applications of the paired sample t-test include case-control studies or repeated-measures designs.

quality-based constraints. Such programs could help households re-establish a good credit record or, preferably, keep households from damaging their credit records in the first place. How to more fully address the increasing impact of credit quality constraints and the persistent impact of wealth-based constraints on homeownership is a challenge facing policymakers.

### References

- Acolin, A., Goodman, L. S., & Wachter, S. M.** (2016). A Renter or Homeowner Nation?. *Cityscape*, 18(1), 9-. Retrieved from <http://repository.upenn.edu/fncepapers/41>
- Acolin, A., Bricker, J., Calem, P., & Wachter, S.** (2016). Borrowing Constraints and Homeownership. *American Economic Review*, 106(5), 625-629. <http://dx.doi.org/10.1257/aer.p20161084>
- Amidu, A. R., & Aluko, B. T.** (2006). Performance Analysis of Listed Construction and Real Estate Companies in Nigeria. *Journal of real estate portfolio management*, 177-185.
- Atif R. Mian Amir Sufi** (2009). House Prices, Home Equity-Based Borrowing, and the U.S. Household Leverage Crisis. NBER Working Paper Series. Working Paper 15283 <http://www.nber.org/papers/w15283>. National Bureau of Economic Research
- Bostic, Raphael W., and Surette, Brian J.** (2001). Have the doors opened wider? Trends in homeownership rates by race and income. *Journal of Real Estate Finance and Economics* 23 (November), 411-434
- Benito, A.** (2006). How does the down-payment constraint affect the UK housing market. Bank of England Working Paper no. 294.
- Bentzien, V., Rottke N. & Zietz, J** (2012). Affordability and Germany's low homeownership rate. *International Journal of Housing Markets and Analysis* (5) 3, 289-312. doi: 10.1108/17538271211243616
- Calem, P.S., Firestone, S. & Wachter, S. M.** (2010). Credit impairment and housing tenure status. *Journal of Housing Economics*, 19 (2010), 219-232
- Earley, F.** (2004). What Explains the Differences in Homeownership Rates in Europe? *Housing Finance International*, 19(1), 25-30.
- Harding, J., Miceli, T. & Sirmans, C.F.** (2000). Do Owners Take Better Care of Their Housing than Renters? *Real Estate Economics*, 28(4), pp. 663-81.
- Haurin, D., Parcel, T. & Haurin, J.** (2002). Does Homeownership Affect Child Outcomes? *Real Estate Economics*, 30(4), 635-66.
- Lawanson, T. & Oyalowo, B.** (2016). Climbing out of Poverty: The role of social co-operatives in Lagos, Nigeria. *Journal of Environmental Design and Management*, 8(1&2), 92-101
- Muraina, O.A.** (2017). Assessment of the Factors that Influence the Decision and Willingness of Homeowners to acquire Loans for Home Improvement. An Unpublished M.Sc Course Work, Department of Estate Management, University of Lagos, Lagos Nigeria.
- Nubi, O.T.** (2008). *Affordable Housing Delivery in Nigeria, Journey Thus far and a Road Map*. Paper presented at the International Workshop Housing Delivery Organised by the South African Foundation International Conference and Exhibition, Cape Town, Sept. 2008
- Nubi, T.** (2015, August). *Housing beyond bricks and mortar*. Paper presented at an inaugural lecture of the University of Lagos, Lagos Nigeria.
- Núria Rodríguez-Planas** (2018). Mortgage Finance and Culture, IZA DP No. 11316 DISCUSSION PAPER SERIES: IZA-Institute of Labor Economics#
- McCord, M.** (2011). *The implications of mortgage finance on housing market affordability*.
- Office Of Policy Development & Research** (2005). The Potential of Down payment Assistance for Increasing Homeownership Among Minority and Low-Income Households, U.S. Department of Housing and Urban Development.
- Office of Policy Development & Research** (2006). The Homeownership Experience of Low-Income and Minority Families. A Review and Synthesis of the Literature U.S. Department of Housing and Urban Development.
- Oyalowo, B.A.** (2017). Urban Housing Supply: Co-operative Housing as The Third Way. *UNILAG Journal of Humanities*. 4(2), 18-37
- Proxenos, S.** (2002). Homeownership Rates: A Global Perspective. *Housing Finance International*. 17(2), 3-7.
- Rosenthal, Stuart S.** (2002). Eliminating credit barriers: how far can we go? In Low-Income Homeownership, pp111-145, Edited by Retsinas, Nicolas P.; Belsky, Eric S.





## INTERNATIONAL UNION FOR HOUSING FINANCE



Established in 1914, the International Union for Housing Finance (IUHF) is a worldwide networking organisation that enables its members to keep up-to-date with the latest developments in housing finance from around the world and to learn from each other's experiences.

### How does the Union do this? **By communicating!**

#### The Union does this in five different ways

- The Union runs a website - [www.housingfinance.org](http://www.housingfinance.org). Please pay a visit!
- The Union publishes a quarterly journal, *Housing Finance International* (HFI)
- The Union organises a World Congress every two years
- The Union actively participates in events related to key housing finance issues around the world
- The Union facilitates the exchange of information and networking opportunities between its members

→ For more information, please see [www.housingfinance.org](http://www.housingfinance.org)  
or contact us at:

International Union for Housing Finance | Rue Jacques de Lalaing 28, B 1040-Brussels - Belgium | Tel: +32 2 231 03 71 | Fax: +32 2 230 82 45