SECONDARY MORTGAGE MARKET: A PANACEA FOR AFFORDABLE LONG TERM FINANCING FOR URBAN LOW INCOME HOUSING IN NIGERIA

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Abstract
Finance, being an all-important factor; a sine qua non and very crucial ingredient to projects, no matter their nature, is basically the fulcrum which sustains the lever for development projects. However, lack of finance remains a major problem inhibiting the development of adequate and affordable housing in Nigeria. In such a tight money market, housing is usually the first area to suffer, since neither the developer nor the consumer can readily obtain finance for housing. Housing provision requires huge capital outlay, which is often beyond the capacity of the medium income/low income groups. Olotuah (2009) observes that the disparity between the price and quantity of housing on the one hand, and the number of households and the money available to them to pay these prices on the other, constitute the central problem of housing. There is no doubt that one of the foremost challenges of the Nigerian housing economy today is that of developing an affordable mortgage financing system which befits a dynamic, competitive and equitably economic system. This is because access to housing finance constitutes one of the major pillars of sustainable private sector housing delivery system and is an indicator of housing affordability. The key issue that emerges therefore revolves around how to ensure adequate and sustainable long term lending by private financial institutions for low income households rather than the current short term lending practice. This research therefore seeks to study the secondary mortgage market as a panacea for achieving affordable long term financing for low income urban housing especially in Nigeria.
Keywords: Secondary Mortgage Market, Panacea, Housing, Affordable, Finance, Low Income, Nigeria

INTRODUCTION

Housing is one of the basic necessities of man in addition to food and clothing, and constitutes the single largest expenditure in the budgets of most households making it their most valuable asset (Mugambe, 2009). Housing as a concept is inexhaustible and has profound influence on the health, efficiency, social behaviour, satisfaction and general welfare of the community as a unit of the environment. Many scholars have described it as a reflection of the cultural, social and economic values of a society and one of the best historical evidences of the civilization of a country (Hannu, 2017; Chime, 2016; Iwedi and Onuegbu, 2014; Alagbe, 2013; Haffner and Boumeester, 2010; Boleatand Walley, 2008; Olotuah, 2000). In Nigeria, the housing sector has been bedevilled with a plethora of setbacks and at no point has it been adequately delivered either quantitatively or qualitatively in the country. The problems of population explosion, continuous influx of people from the rural to the urban centres, lack of basic infrastructure required for good standard of living inadequate financing structure have compounded housing problems over the years. Abdullahi (2010) revealed that government has at various times, initiated various housing policy programmes from the advent of the colonial masters when the Lagos Executive Development Board (LEDB) was instituted, to the National Housing Policy that birthed the National Housing Fund (NHF) scheme, all aimed at solving the national housing problems. However, the policies lacked potentials for sustainability and most of them have been abandoned largely on the guise of the exercise being a luxury, the economic pressure brought about by the structural adjustment programme of economic recovery of the 1990s and the inefficacy of previous public housing programmes. In the early

2000's, government came to the conclusion that availability was not the problem of housing in the country but affordability.

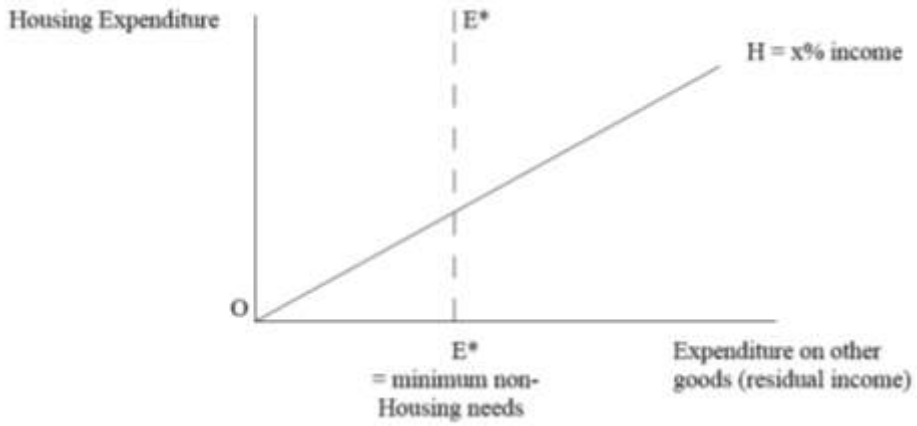
Housing affordability has been referred to by a number of researchers in many different ways. According to Nwuba (2015), the concept of housing affordability can be viewed in three key dimensions, namely, affordability for renters, affordability for existing homeowners, and affordability for would-be homeowners. Affordability for renters otherwise referred to as rental housing affordability deals with the ability of households in rental tenure to meet their housing costs. Affordability for existing homeowners involves households' ability to meet on-going cost of homeownership such as mortgage installment payments while affordability for would-be homeowners deals with a household meeting the requirement for accessing homeownership such as qualifying for the terms on which mortgages are granted. According to Milligan, Phibbs, Fagan & Gurran (2004), affordable housing recognizes the needs of households whose incomes are not sufficient to allow them to access appropriate housing in the market without assistance. Thus, the term 'affordable housing' describes housing that assists lower income households in obtaining and paying for appropriate housing without experiencing undue financial hardship (Adiukwu, 2015).Just as Ajanlekoko (2001) rightly puts it, without an effective finance system, no housing policy can be effectively implemented.This means that without available, affordable and sustainable housing financing solutions, many urban poor cannot get decent housing.

Literature Review

Housing Affordability

The issue of housing affordability and the development of housing affordability targets emerged in the late 1960s in the United States of America, largely in response to the urban riots of the mid-1960s (Stone 1993). It provided a basis for targeted allocation of subsidies to low and middle income households seeking accommodation within the private rental market (Maclennan and Williams 1990). The focus on housing finance and consumption, as opposed to housing need and supply, was consistent with the broader social policy environment in the US, in which policy makers have designed government intervention and provision in a way which facilitates market mechanisms. In contrast, in Canada, the UK and other European nations, housing affordability emerged in the 1980s as part of a general retreat away from an administered social housing system towards multi-faceted, market-based policy responses (Cahill 1994; Hulchanski and Shapcott 2004; Maclennan and Williams 1990). The emergence of housing affordability in Australia and New Zealand is somewhat consistent with the experience of Europe, but unlike the UK and Europe, the social housing sector is small and the adaptation to a more diverse and market-orientated approach has been achieved with a broader coalition of support. In Australian's housing affordability literature, a concept known as housing affordability stress is prevalent. It is used as an indicator of the number of households that are potentially at the risk of housing affordability problems (Yates, Milligan, Berry, Burke, Gabriel, Phibbs, Randolph, 2007). The concept of housing affordability stress is the lens through which policy makers in Australia view the need for assistance and so it is income dependent, seeing housing affordability as a challenge to only the poorest households (Beer, Kearins, &Pieters, 2007). Housing affordability measurement in Australia's housing policy is mostly confined to the bottom 40 percent of the income distribution, classified as the lower income. Thus, the most common method of measuring housing affordability stress defines a household as being in affordability stress if it spends ***more than 30 percent of its income*** on housing expenditures and belongs to the bottom 40 percent of the income distribution (Nepal, Tanton, & Harding, 2010). Similarly, mortgage stress is defined to occur when a household in the lowest 40 percent of the income distribution has a mortgage that is *in excess of 30 percent of their income* (Australian Housing and Urban Research Institute [AHURI], 2012). However, the level at which housing stress is considered to occur does not appear to be precise. In contrast to the excess of 30 percent of income definition, some other definitions indicate that housing stress occurs when the ratio of housing costs to income for the group of households is 30 percent or more (Johnson, 2008).

Figure 1: Affordability measures



Source: Gabriel, Jacobs, Arthurson, Burke, and Yates (2005)

Low Income Housing Affordability in Nigeria

The Nigerian National Housing Policy (FGN, 2004) defines the low income group as all employee and self-employed persons whose annual income is ₦100, 000 and below (i.e. the equivalent of salary grade level of 01-06 within the civil service). However, going by the current minimum wage of ₦30,000 for public workers proposed in 2018, it can be said that the low income earner in Nigeria is an employee or self-employed person whose minimum annual income is ₦ 360,000 and below. According to Onu and Onu (2011), low income earners can be divided into two categories, namely, the low income earners who have no gainful employment and the low income earners who are employed. The low income earner is therefore a relative term, hence, the authors opine that to identify the low income earners, one needs to take cognizance of the location, cost of living, employment status of individuals, and their expenditure characteristics within a free market economy. In this respect, the low income earner is seen as someone who cannot meet most of his basic needs such as food, clothing and housing. According to the World Bank (2009), in an ideal mortgage financing system, household income should be characterized by:

(i) **Sufficient absolute level of income** – this is the minimum level of income, which guarantees that households earn enough to cover the cost of a mortgage in addition to the regular household expenses. A prudent ratio of 40% mortgage payment to income is considered adequate globally (ILO, 2011). However, with 33.3% mortgage payment to income ratio operating in Nigeria, only about 12% of the urban population can afford mortgages and a meagre 4% of the rural population can afford mortgages with supplementary, informal income, which may not be accounted for in loan origination procedures.

(ii) **Verifiable income** – which helps to ascertain the repayment capability of the borrower. This is also a major challenge to mortgage financing in Nigeria because the majority of the population, even in urban centres, subsists on informal income.

(iii) **Consistent income** – given the long tenure of a mortgage loan, ascertaining the consistency of a borrower's income assures the lender that a regular income will be earned over the lifetime of the loan. This condition also poses some challenges to mortgage financing in Nigeria because a large segment of the population is mostly small and medium scale entrepreneurs who frequently do not have proof of the consistency of their income.

Many Nigerians are willing to own houses but low income and inability to access housing funds through housing mortgage institutions have remained their major challenges. For instance, a recent study by the Millard Fuller Foundation, an international US based humanitarian organization, stated that most Nigerian workers are earning less than N500, 000 per annum or N40, 000 per month. The report also says about 80 per cent of Nigerians cannot afford a house that is more than N1 million naira.

According to Enhancing Financial Innovation and Access (EFInA) (2010), the following features characterize the low income earners in Nigeria:

a) They are engaged in both formal and informal sectors of the economy;
b) Their average monthly salary/take home pay ranges from N5,000 to N40,000;
c) Those in gainful employment still engage in one or two businesses to make ends meet;
d) Some claim to get some irregular sums of money as gifts from relatives, friends and boyfriends, especially when in urgent need and
e) They also engage in some menial jobs and enjoy from the national cake doled out by politicians.

Aduwo, Ibem and Onyemaechi (2017) note that housing provision in Nigeria has been a sad tale of shortage and deficits with over 80% of the housing deficit figure attributed to the low income group in the informal sector who are the most affected. As Adiukwu (2015) puts it, housing difficulties are more serious for the lower-income groups, where problems have been complicated by, inflated real estate values, speculative activity, influx of poor immigrants, deplorable urban services and infrastructures, and a lack of implementation of planning policies. Olotuah (2000) observes that rapid urbanization and poor economic growth have compounded the problems of inadequate housing in Nigeria. According to Alagbe (2013), population size of Nigerian urban dwellers has increased by 10% in 1952, 38% in 1993 and 50% in 2009. By 2050, 70% of the world's population is projected to live in urban areas according to UN statistics (Jiboye, 2011). Table 1 below shows the estimated housing needs in Nigeria between the periods of 1990 to 2020 by the three levels of income groups in the country.

Table 1: Estimated Housing Needs in Nigeria between the Periods of 1990-2020

Income group /Year	**1990**	**2000**	**2020**
Low-income	8,413, 980	14,372,293	39,989,286
Medium-income	7,770,005	13,273,291	33, 573,900
High- income	7,624,230	12,419,068	28,548,633

Source: (Agbola, 2004)

The reality of this situation is that existing housing stocks are inadequate to cater for the increasing population. The current trend of development in the country is that developers who engage in commercial housing affordable to the few privileged ones in the society do so mainly for profit making and not for the masses or low income earners. Since many of these developers operate on short-term loans which must be recouped (Adedeji and Abiodun, 2012).In summary, the low-income groups who constitute the majority of the Nigerian society are the most vulnerable and most affected by the lack of housing facilities, to the extent that high cost of housing and the affordability gap has almost eliminated the low-income earners from the housing market.Hence, housing finance becomes a major barrier to the poor-low-moderate income earners even as they spend above 30 percent of their meager income on housing (Finkel, 2005; Agbola et al., 2007; Denis, 2011; Wapwera, Parsa and Egbu, 2014).

Constraints to Affordable Housing Finance in Nigeria and the need for Long Term Funding

Ogedengbe (2004) asserts that any system of housing finance is sustainable only if it is relevant to the economic, social, political and regulatory environment of the country concerned. The

experience of mortgage banking in Nigeria can simply be summarized as utter failure as observed by Nubi (2003) as Nigeria's present housing finance system is severely underdeveloped and ill-equipped to mobilize and channel savings to the housing sector. He posits that without a well-organized and efficient housing finance system, it is difficult to mobilize substantial financial resources for channeling funds into the housing sector. The Nigerian mortgage finance, like many developing countries, is dominated by primary mortgage market without a viable secondary mortgage market which makes it underdeveloped (Ojo, 2007; Johnson, 2014). Although the Federal Mortgage Bank of Nigeria (FMBN) was created to essentially serve as a wholesale and apex institution, other institutional components of the finance market in terms of primary mortgage institutions have not developed.It is generally accepted that despite high demand for mortgage loans, the Federal mortgage bank has not been able to meet up with such demand and for it to make any meaningful impact on the housing sector; other sources of funds must be developed (Ogedengbe, 2004). The present scenario for funding housing delivery in Nigeria shows that the primary mortgage institutions are faced with inadequate funds to finance long-term loans. Their financial base can only cater for a few people, so once loans are disbursed to a set of people on a long term, the needs of other sets of people who require loans for house construction are not met by these primary mortgage institutions simply because the little amount of money at their disposal is tied down in the hands of the few beneficiaries, hence they appear ineffective. Kama et al (2013) attest that many initiatives have been put in place by both the government and the organized private sector to provide affordable housing for the average Nigerian. However, the development and impact of the Nigerian mortgage market is minimal because of many constraining factors which they listed as follows:

1. Macroeconomic volatility: A cross-country study by Warnock and Warnock (2007) established that housing finance of every country depends, among other factors, on the macroeconomic stability. An unstable macroeconomic condition jeopardizes mortgage finance system. Nigeria is a mono-economy depending on oil which exposes the country to volatility. It has been observed that the Nigerian economy's exposure to volatility posed a significant constraint on mortgage financing (Ojo, 2007; Ezimuoet al., 2014).

2. High interest rate: Interest rate pose serious problem to mortgage financing in Nigeria. This is because the high interest rate makes the mortgage beyond the reach of majority of Nigerians. Several studies attributed the paucity of mortgage financing in Nigeria to exorbitant interest rate (Emoh and Nwachukwu, 2011; Johnson, 2014). Ayere (2013) compared the official interest rate in Nigeria of 12 per cent with other countries such as UK, USA, Russia, India, South Africa and Brazil, which have interest rates of 0.5, 0.25, 8.25, 7.5, 5.0 and 7.25 per cent, respectively. However, the 12.0 per cent interest rate is the monetary rate which is far below the actual interest rate charged by banks. Official data from central bank of Nigeria show that the weighted average interest rate charged by banks ranged from the prime lending rate of 16.72 to the maximum of 24.69 in 2013 (CBN, 2014a, 2014b). However, this rate is exclusive of bank charges and insurance fees that are also charged by banks (Aliyuet al., 2011).

3. Inaccessibility of long-term mortgage funding: Inaccessibility of mortgage funding is another factor militating against the progress of mortgage financing in Nigeria. Several studies revealed that mortgage financing is not accessible to majority of Nigerians, and where it is available; it is mostly on short-term tenure (EFInA, 2010; Ezimuoet al., 2014). This is because financial institutions in Nigeria rely on deposit to fund their mortgage assets. This poses maturity mismatch between the short-time liability they have to meet on demand and the long-term asset (Anayochukwu, 2011). Similarly, potential interest rate risk prevents institutions from offering long-term mortgage finance. To minimize the risk, they offer only variable rate short-term mortgages of mostly three to five years (Johnson, 2014).

4. Unaffordability of mortgage to borrowers: Affordability is the ability of borrowers' income to repay mortgage debt within the stipulated tenure without exerting undue constraint on the

borrowers' consumption. In Nigeria, mortgage financing is not affordable to majority of Nigerians because of low income level and high incidence of poverty, which is above 50 per cent (Ogunba, 2009; NBS, 2012b). Borrowers are required to make down payment of about 20-30 per cent and pay interest rate of between 17% to 25% using not more than 33.3% of income in repayment which is directly deducted from source (Johnson, 2014).

5. Lack of sound legal framework: One of the considerations of lenders is the ability to foreclose the mortgage property in case of default. Warnock and Warnock (2008) established that a country with strong legal right for both the lender and borrower tend to have a deep housing finance system. However, lack of it jeopardizes the housing finance system. Donkor-Hyiaman and Owusu-Manu (2016) observe that lack of sound legal system that provides for easy foreclosure and liquidation of collateral constrained collateral efficiency, which is required for effective mortgage system. Nigeria does not have foreclosure laws. What is obtainable is only judicial foreclosure (Ayere, 2013). In case of default, lengthy litigation procedure is followed before the lender could claim the title to the property. The defaulters utilize the weakness of the foreclosure system by securing court injunction restraining the lender from commencing any foreclosure against the property, thereby hampering the process for years. This exposes lenders to credit risk.

6. Bottlenecks in the Land Use Act of 1978: Mortgage market in developing countries, particularly Africa, is hampered by property title insecurity. This impairs the capacity of property owners to secure loans using their property as security collateral (Asabereet al., 2016). Donkor-Hyiaman and Owusu-Manu (2016) similarly notes that property title insecurity in Africa encourages weak property right, which hampers mortgage lending because it depends on security collateral. Nigeria is not an exception in this regard. The Land Use Act of 1978 vested all land within the territory of each state on the governor of that state. This implies state ownership of all land. Section 22 of the act requires any person who wishes to mortgage his property to obtain governor's consent for same. This follows bureaucratic processes that are costly and time-consuming. One of the requirements of mortgage institution is a security collateral for loan which must be certified by Certificate of Occupancy (C of O). The process of obtaining this C of O is very expensive, difficult and cumbersome (EFInA, 2010). Access to land and proper legal documentation of title has been considered as a great impediment to mortgage financing in Nigeria (Folurunsoet al., 2012; Johnson, 2014; Ezimuoet al., 2014).

7. Socio-cultural factors: Some of the social behavior and culture of Nigerians do not encourage mortgage financing. Nigerians typically have poor savings culture and lack credit culture (Johnson, 2014). This denies the mortgage institutions from having the needed deposits to fund their mortgages. Similarly, some Nigerians are debt averse and may consider mortgage as inferiority. There is also the problem of mistrust and lack of confidence on the mortgage institutions by Nigerians (Ojo, 2007), which discourages them from patronizing the institutions. Mortgages have some elements that are contrary to religious principles. This makes some Nigerians to boycott the products. Similarly, the attitude of Nigerians toward mortgage financing is poor and level of awareness among Nigerians on mortgage financing also low (Ezimuoet al., 2014). These borrowers' specific factors affect mortgage financing in Nigeria.

The Capital Market as a Long Term Financing Option for Developing Affordable Housing in Nigeria

The Nigerian mortgage market is characterized by excess demand and huge housing deficit due to lack of appropriate funds in terms of volume, tenor and rate. The type of funds required by the mortgage market ought to be relatively cheap, affordable and in adequate supply to match the demand. The only platform to source such compatible funds is via the capital market. A capital market according to Adewuyi and Olowookere (2011) is a segment of a nation financial system

where the main article of trade is medium and long-term financial instruments. Such instruments are generally referred to as securities because of the level of confidence and assurance or guarantee it gives to the investor on the repayment of their principal. The capital market is unarguably the most robust institution in any economy notable for mobilizing the necessary fund for financing long-term productive project. It controls relatively large amounts of capital and represent the largest institutional providing long-term credits for capital project like real estate that requires huge capital outlay (Adjekophori and Adebiyi, 2016).Gyntelberg, Johansson and Persson (2007) agree that although deposits have historically been the dominant source of funding, capital marketfunding or securitisation has witnessed a tremendous growth in the last decade.West (2006) in Oyewole and Oladokkun (2010) affirms that the capital market option makes raising capital easier for lenders and in turn, allows them to lend at lower rates. Sanusi (2003) in his research on mortgage financing in Nigeria suggested that new sources of housing finance be explored through the development of a variety of instruments for the mobilization of fund from the capital market. This include, the large-scale securitization of mortgage portfolios, a mechanism that has remained the primary engine of growth in the housing finance systems of the United States, Germany, France and Italy. He attests that the capital market is responsible for long-term capital formation and therefore a good engine that can drive any economy to positive growth and development. Adebiyi (2005) attests that the significance of the capital market lies in its financial intermediation capacity to link the deficit sector with the surplus sector of the economy. Thus, the capital market becomes a good avenue for mobilizing huge and long-term capital required for funding housing development and investments. The Nigeria capital market is sub-divided into primary and secondary markets. New securities are issued in the primary market and companies issuing these securities receive the proceeds for the sale. The secondary market provides a forum for the sale of existing securities by one investor to another investor. Thus, the efficient functioning of the secondary market paves way for the primary market by making investors more willing to purchase new securities in anticipation of selling such in the secondary market. These securities are the major instrument used to raise funds at the capital market.

Harnessing the Secondary Mortgage Market for the provision oflong term financing for Low Income Housing in Nigeria

The UNCHS 2007 established that many countries in the emerging economy like Nigeria have nascent and weak financial markets. The participation of financial markets in financing housing has been limited and the majority of low-income households are also excluded from the formal financial services industry. This resulted in 70 to 80 percent of housing finance in emerging economies being raised from the informal market (Okpala, 1994).Raising finance for housing development in Nigeria has become more like an insurmountable barrier making credit financing very inevitable (Ademuliyi, 2010). Ajibola, Oloyede and Oni (2009) opine that debt financing is very common but constrained by long term nature of the housing development as against the short term period of the lenders in most cases. According to the World Bank, a sharp decline in public and private funding for key growth sectors and basic infrastructure are creating huge gaps in long term finance for development. Nubi, Omirin and Afolayan (2007) describe long term borrowing by way of mortgage as the bedrock on which the housing finance system in developed economies survives. A well-developed financial sector that enables long term financing for countries strategic sectors such as housing is crucial for inclusive economic growth. A basic framework that can enable a well-functioning housing finance system includes factors that promote long-term lending and factors that promote the mobilization of funds. Warnock and Warnock (2008) opine that a reliable source of funds for the housing finance system is the secondary market, which buys the loans from the primary market and finds many ways to mobilize funds. The development of Secondary Mortgage Markets (SMMs) is becoming an increasingly important objective of global economies. Lea, a world acclaimed expert in secondary mortgage market in his research on the role of the Primary Mortgage Market in the development of a successful Secondary Mortgage Market, asserts that the solution proposed for developing countries is the introduction of SMM. While mortgage loans are originated in the Primary Mortgage Markets (PMMs) and involve raising capital

through the use of property as security, the Secondary Mortgage Markets (SMMs) provide a platform where mortgage originators are able to sell the receivables from the loans before maturity, in return for capital. Mortgage loans may either be sold individually on the SMM or packaged into pools before being sold to increase investor participation by offering group investment options. The capital raised from these sales is used to originate more loans and thus, create immediate liquidity in the PMM.

Ogedengbe (2004) in his study of globalization, secondary mortgage banking and challenges before Nigeria, explained that a secondary mortgage market is a transaction that involves the selling of primary mortgages (mortgage portfolios) by a holder of a mortgage portfolio (e.g. a primary mortgage institution) to a secondary mortgage institution that generates cash payments to the holder of mortgage portfolio. The secondary mortgage institution then holds the mortgages in its portfolios and the lender (mortgagee) in turn uses the cash received to create more mortgages for more house owners. One set of participants in the secondary market is the mortgage securitizers, who bundle and repackage mortgages (or parts of mortgages) to create new securities, and investors in these mortgagesecurities.Under the secondary mortgage market, the secondary mortgage institution can issue Mortgage-Backed Securities (MBS) in exchange for pools of mortgages from lenders instead of paying cash. Thus, instead of paying cash, the secondary mortgage institution would pay through the means of Mortgage-Backed Securities to the primary mortgage institutions. He goes further to explain that these Mortgage- Backed Securities (MBS) are guaranteed by the secondary mortgage institution to the investor and the investor will receive timely payment of principal and interest regardless of what happens to the underlying mortgages in return for a guaranty fee charged. Lea (2000) rightly points out that securitization and secondary mortgage market development are topics of great interest worldwide, particularly as a means of enhancing the flow of funds to households. The success of secondary markets for mortgages, particularly in the United States, has inspired developing countries to explore the use of this technique to increase funds available for housing finance and reduce significant housing shortages. The Nigerian housing finance market should therefore not be left out in this emerging trend as many developing countries recognize that a vibrant secondary mortgage market can provide distinct benefits including, among others, a deeper capital market, housing policy that responds to the needs of the private sector and reduced risk exposure for industry participants. Lea (2000) further observes that standardization and the existence of an active primary market are important prerequisites for the development of a successful secondary mortgage market. True and sustainable secondary market development cannot proceed unless and until the primary market is able to produce a sufficient volume of high quality mortgages that meet the servicing and performance requirements of investors. Securitization and secondary mortgage market development are major topics of interest throughout the world. The success of the secondary market in the US has led both private and public sector officials in many countries to recommend its creation as a way of enhancing the flow of funds to housing. However, what is often overlooked in such discussions in the readiness of the primary market. True and sustainable secondary market development cannot proceed unless and until the primary market is able to produce a sufficient volume of high quality mortgages that meet the servicing and performance requirements of investors. What are the major primary market prerequisites for secondary market development? Lea (2000) points out 8 major prerequisites:

1. Stable Macroeconomic Environment: Macroeconomic stability is very important for several reasons. First it has a major effect on the demand for mortgages. High rates of inflation and nominal interest rates are typical features of volatile economies. These features have the effect of reducing the affordability of conventional mortgages. A volatile economy also affects the supply of funds and the characteristics of mortgages offered by lenders. In a volatile environment, lenders are reluctant to offer long term loans. This may lead them to not offer mortgages or only offer short maturity loans that in turn are less affordable for consumers. A volatile macroeconomic environment also creates difficulties for investors. Like lenders they may prefer short-term assets, in part because of the difficulties of forecasting inflation and interest rates. Investors must be able to forecast cash flows with a tolerable level of variance in order to price and evaluate the risk of their investments.

2. Developed Legal Environment: A well-functioning title and lien registry are important underpinnings of both the primary and secondary market. Without good title, borrowers cannot use their homes as effective collateral for loans and investors will not view securities backed by such loans as safe. A key legal prerequisite is the timely and cost effective registration of title and lien. A barrier that exists in many developing countries is the imposition of transfer taxes or stamp duties on title and lien registration or transfer. Long delays in the registration process can also increase the risk of both primary market and secondary market transactions. A workable foreclosure and repossession system is an important although not essential component of an effective legal environment.

3. Competitive Market Structure: Mortgages must be attractive investments. The interest rates on the mortgages must be market determined and provide investors with a positive, real, risk-adjusted rate of return. The spread must compensate the investor for the risks of the investment including credit risk, liquidity risk and interest rate risk. The more competitive is the mortgage market the greater the potential for secondary market development. This is particularly the case if the market environment will support the entry of mortgage companies that rely on securitization (off-balance sheet finance) for funding. In countries in which the dominant lenders are depository institutions with abundant capital and access to relatively cheap retail funds, securitization is often not a cost effective form of finance and it is difficult to create a secondary market. There must be a significant volume of loans to justify the up- front costs of developing the secondary market infrastructure.

4. Mortgage Instruments: The cash flows from mortgages must be predictable. There must be relative standardization of the instrument, documentation, and underwriting. Standardization of the mortgage instrument is a key factor in secondary market development. Mortgages should be pooled with similar characteristics to facilitate larger pool size and more liquidity and to reduce the due diligence costs of investors and rating agencies.

5. Proper Origination Techniques: Solid and consistent underwriting is key to secondary mortgage market development. Investors must have confidence that lenders are properly judging risk and using a consistent set of criteria in evaluating loans. A degree of standardization is necessary to lower costs of due diligence and allow investors, rating agencies, guarantors to quantify credit risk. An accurate assessment of the value of the property is fundamental to determining whether, in the event of borrower default, the lender could recoup enough from the sale of the home to cover losses. A repository for credit information that can be used to ascertain a borrower's track record of handling credit is an important component of underwriting. Credit bureaus can provide lenders with detailed credit files; they also can provide a credit bureau score, which summarizes the information into one number reflecting an individual's expected credit performance.

6. Secondary marketing expertise: Secondary marketing is the function of financing and, subsequently, selling the originated mortgage to institutional investors. This activity includes the warehousing of the mortgage between the time the mortgage is closed and subsequently sold to an investor. There are at least 3 major risks the seller must manage as part of the secondary marketing function:

i. *Commitment risk*: The risk that an interest rate commitment ("rate lock") offered to a home buyer for a loan is made and the firm is unable, generally due to market forces, to earn an adequate sales price to cover the costs of providing the commitment.
ii. *Pipeline risk*: The risk that a closed loan will change in value between the time of closing and shipment to an investor. This risk is often hedged using forward, option or futures contracts.
iii. *Documentation risk*: The risk that a closed loan is underwritten improperly and does not conform to the investor's requirements. These loans are known as "lame loans" and frequently can be converted into acceptable loans for delivery, but usually after months of

seasoning and additional documentation. The delays in delivery, or inability to deliver, produce costs for the originator.

7. Proper Servicing techniques: The servicing of mortgages is a critical component of a viable secondary mortgage market. The collection of mortgage payments and the periodic remittance of these payments to the investor (or conduit) are the major tasks of servicers (whether they are originators or third parties). In addition, servicers are the primary repositories of information on the mortgage loans. Thus, they must maintain accurate and up-to-date information on mortgage balances, status and history and provide timely reports to investors.

Methodology

Okolie (2011) describes research methodology asthe overall strategy, designed to achieve the aim and objective of the research. By virtue of the nature of the research, survey design/field research was adopted for this research. The use of survey research method for this research made the data generated directly from respondents to be more distinct and finite. The groups that made up the population for this research were; the private sector housing development companies under the Real Estate Developers Association of Nigeria (REDAN), practicing Estate Surveyors and Valuers involved in housing development in the research areas, financial institutions involved in mortgage financing both in the primary market and secondary market, Government regulatory institutions and parastatals in housing financing such as Ministry of Finance, Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC), Federal Mortgage Bank of Nigeria (FMBN)under the study area. The sampling techniques adopted for this study were stratified random sampling for administration of the questionnaire and purposive sampling technique for the selection of respondents.

The use of stratified random sampling technique is justifiable because it reduces sampling error.A total of 350 questionnaires were distributed and 317 were returned. This represents a response rate of 91%.

Results and Discussions

Respondents were asked their opinion on global best practices that would further enhance the development of affordable private sector financing for low income housing in Nigeria. The responses are presented and analyzed in Table 2 below.

Table 2: Global Best Practices That Will Further Enhance the Development of Affordable Private Sector Financing for Low Income Housing in Nigeria.

SA=Strongly Agree; A=Agree; N=Neutral; D=Disagree; Strongly Disagree

S/N	ITEM	SD	D	N	A	SA	Mean Score
1.	Private equity	97	199	4	14	3	4.18
2.	Pension funds	168	123	1	24	1	4.37
3.	Insurance companies	161	118	5	26	7	4.26
4.	Development finance institutions	158	123	2	31	3	4.27
5.	Capital markets/Stock exchange/Bond markets/REITS	101	189	3	19	5	4.14

Table 2 shows the mean score ranking of the respondents on global best practices that will further enhance the development of affordable private sector financing for low income housing in Nigeria. Mean score of 4.0 and above will reject the null hypothesis while mean score below 4.0 will accept the null hypothesis. The results of mean scores developed in the analysis shows that Capital markets/Stock exchange/Bond markets/REITS has a mean score of 4.14; Private equity has a mean score of 4.18; Insurance companies have a mean score of 4.26; the development finance institutions have a mean score of 4.27; Pension funds have a mean score of 4.37.

From the result, the researcher observed that development finance institutions, insurance companies, private equity, pension funds and capital markets/Stock exchange/Bond markets/REITS are significant as global best practices that will further enhance the development of affordable private sector financing for low income housing. Since the mean scores are above 4.0, the null hypothesis is rejected and the alternative hypothesis is accepted. **The result therefore, is that**

affordability of low income urban housing in South East, Nigeria, is dependent on global best housing finance practices, implying that global best practices will further enhance the development of affordable private sector financing for low income housing in South-East, Nigeria.

Table 3: Pearson Correlations for Hypothesis Four

		SA	A	N	D	SD
SA	Pearson Correlation	1	-.991**	-.340	.849*	-.119
	Sig. (1-tailed)		.001	.288	.034	.424
	N	5	5	5	5	5
A	Pearson Correlation	-.991**	1	.261	-.895*	.007
	Sig. (1-tailed)	.001		.336	.020	.496
	N	5	5	5	5	5
N	Pearson Correlation	-.340	.261	1	-.315	.832*
	Sig. (1-tailed)	.288	.336		.303	.040
	N	5	5	5	5	5
D	Pearson Correlation	.849*	-.895*	-.315	1	.047
	Sig. (1-tailed)	.034	.020	.303		.470
	N	5	5	5	5	5
SD	Pearson Correlation	-.119	.007	.832*	.047	1
	Sig. (1-tailed)	.424	.496	.040	.470	
	N	5	5	5	5	5

The Pearson correlation result in Table 3 above shows that there is a strong significant relationship between strongly disagree and disagree variables with significant value of 0.001 and a strong negative correlation of -0.991. However, the correlation result of variables, strongly agree and agree are insignificant with insignificant value of 0.470 and a very weak positive correlation of 0.047. Strongly agree and disagree variables are insignificant with weak insignificant value of 0.496 and a very weak positive correlation of 0.007. Strongly agree and neutral variables are highly insignificant with weak insignificant value of 0.040 and a strong positive correlation of 0.832. Strongly agree and strongly disagree variables are insignificant with weak insignificant value of 0.424 and a weak positive correlation of -0.119. Agree and neutral variables are insignificant with insignificant value of 0.303 and a weak negative correlation of -0.315. Agree and disagree variables are insignificant with a very weak insignificant value of 0.020 and a strong negative correlation of -0.895. Strongly disagree and neutral variables are insignificant with insignificant value of 0.288 and a negative correlation of -0.340. Disagree and neutral variables are insignificant with insignificant value of 0.336 and a weak positive correlation of 0.261.

Conclusion

It is impossible to provide adequate and affordable housing without viablelong-term lending arrangements, which can only be achievable if there is a viable secondary mortgage market. The secondary mortgage market is therefore a sine qua non for mass improvement in the availability of housing. The development of Secondary Mortgage Markets (SMMs) is becoming an increasingly important objective of global economies. Securitization and secondary mortgage market development are major topics of interest throughout the world. The success of the secondary market in the advanced world has led both private and public sector in many countries to recommend its creation as a way of enhancing the flow of funds to housing. The success of mortgage-related securities in the capital markets has opened the door to new sources of funds for real estate development, to more affordable housing, and to increased financial strength for financially troubled lending institutions. Secondary mortgage financing for the low-income population is therefore critical and resources should be committed to researching and understanding this emerging sector as a catalyst for significant change in the financing of housing development in Nigeria.

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