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ENHANCEMENT OF ECONOMIC GROWTH THROUGH MORTGAGE FINANCING AND CAPITALIZATION

Okidim,I.A* & Ellah, Grace. O.**
*Okidim, I.A. Department of Agric and Applied Economics/Ext. Rivers State University of science and Technology Rivers State, Nigeria.
**Ellah, Grace. O. Department of Agricultural Technology, Rivers State College of Art and Science Port Harcourt, Rivers State, Nigeria.

Abstract

This study focused on the enhancement of economic growth through mortgage financing and capitalization. The study investigated the effect of changes in mortgage financing on economic growth, it also examined if there wass any relationship between mortgage finance and economic growth. Data for this study were collected from secondary sources. Time series data were utilized from (1992-2010) This data was collected from central bank of Nigeria(CBN) The data were analysed using ordinary least square(ols) regression analyses and t-test. The result from the t-test showed that there was no significant relationship between mortgage finance and economic growth since the t-calculated was greater than t-tabulated t-cal(1.162472)<t-tab(2.131) at 0.05 level of significant.The coefficient of determination(R^2)showed that 69% of the variation in dependent variable was explained by the independent variables. The study recommended that there should be proper application of mortgage financing, this is because mortgage lending which is not well coordinated will stabilize the economic growth.

1.1 INTRODUCTION

Mortgage finance is a loan given by commercial bank or mortgage bank to finance the purchase of real estate with specific payment schedule and interest rate Colaniran, 2003).

The borrower also known as mortgagor, gives the lender also known as mortgagees, a lien on the property as collateral for the loan. The mortgagor’s lien on the property expires when the mortgage is fully paid. Mortgage financing is necessary since it enable individuals and cooperation to provide the housing need of the populace. According to the Human Development index, good shelter is one of the measures of welfare and symbol of status, a measure of his achievement and social acceptance, and expression of his personality (Agbola 1995).

According to Abraham Manslow’s hierarchy of needs, housing is one of the three basic needs of mankind and is the most important for the physical survival of man after the provision of food. Decent housing is one of the basic needs of every individual, the family and the community as well as the nation. Housing is one of the best indicators of standard of living in any society. People, especially in Nigeria have resorted in living in shanties and slum because of expensive nature of housing. The United Nations recommended between 20-30% of disposable income for rent, but Nigeria workers, especially the low income group spent 60% of disposable income for rent (Ebie 2003).

1.2 Problem Statement

Housing problem is a characteristic of urban settlement, it occurs when individual want to move to the urban centre (urban drift) which makes the urban densely populated and thereby creating a need for the construction of shelter. The short supply of accommodation in the urban cities have been a source of worry especially with the migration of over 20-30% of humans The housing need or requirement is over 60% while home ownership rate is 25%. This means that about 84 million people live in unbefitting houses or shelters such as slums, make-shift buildings shanties, including motor parks. Giving the ugly scenario, it was preliminary investigated and found out that the current demand for mass housing is 13 million housing units. The government alone cannot provide this housing need, hence the need for mortgage financing(Warnock & warnork,2008) Also the need to understand that housing is an engine room for rapid economic growth has necessitated this study so that the study can investigate the problem of housing and how mortgage financing can accelerate economic growth.

1.3 Objective of the Study

The general objective of the study is to examine the enhancement of economic growth through mortgage finance, while the specific objective include to:
1 investigate the effect of changes in mortgages on economic growth.
2 examine if there is a relationship between mortgage finance and economic growth.
3 examine the challenges and issues of mortgage financing as it affect economic growth.

Research Hypothesis

Ho2: there is no significant relationship between mortgage finance/loan and economic growth in Nigeria.

1.4. Literature Review

Mortgage finance started in 1957 following the establishing of Nigeria building, society (NBS) by the colonial master. This policy was armed at mobilizing resources for housing and other infrastructural development. This followed by the establishment of Housing Corporation with the building of residential estate (ominin,2000. To be able to complement the government effort, the federal government in 1991 launched the national housing policy to serve as the palliative measure to ensuring better housing for Nigeria . This followed by the establishment of national housing decree of 1992 which was reversed in 1992. This degree stated that a mortgage institution seeking a loan from the housing fund shall apply to bank (Chionuma 2000). Housing delivery system in Nigeria is combination of many interrelated component which include land, building material policies, building regulation. A combination of all these make housing delivery difficult, that is why rent is expensive (Fasakin 1998) Rent in major cities in Nigeria is about 60%of an average workers disposable income (Ebie 2003).

Olusola and Ata (2002) identified lack of soft loan as one of the major obstacles against urban housing production in Nigeria. It has been investigated in 2002 that even houses provided by the private agencies are expensive and unaffordable by the poor William (2002) that shelter produced by public agencies continue to elude the urban poor who simply cannot muster the financial resources required to procure these housing units, this is because mortgage loans need to be funded and there is always a problem of reliable supply of capital for mortgage lending due to the influence of macro economic conditions such as inflation volatility and price instability

Residential mortgages are of first order importance for household and financial institutions. In developed countries, the economy has one dominant asset-A house, and one dominant liability-A mortgage. Mortgage lending if not well coordinated have the capacity to stabilize the economy (Campbell,2007)

1.5 Methodology

Study Area

This study was conducted in Nigeria. Nigeria is located on the gulf of guinea in West Africa, and occupies an area of about 923, 789 square kilometers and is bordered on the east by republic of Cameron, on the west by republic of Benin and on the north by Niger republic. Nigeria is one of the largest oil producing countries in the world. Oil is found in the Niger delta (southern Niger) while the north produce food (Okidim, 2012).

Method of Data Collection/Sources of Data

Secondary data were mainly utilized in this study. A time series data of between 1992 to 2010 was used in cross section. The central bank of Nigeria (CBN) and federal mortgage bank of Nigeria were also used as secondary sources of data.

Method of Data Analysis

In view of quantitative nature of the objective in this study ordinary least square regression (OLSR) analysis was used with model specification, in addition to this, T- test was also used as well.

Model Specification

$y = a+b+x_1 +b_2 x_2 + ei$

Where y = independent variable

$x_1 + x_2$ = dependent variables

ei = error term.

Starting the model in functional form we have.

$Y = f(x_1, x_2)$

Where y = economic growth (GDP)

X_1 = loan

X_2 = capitalization

1.6 Results and Discussion

Table 1.1

YEAR	GDP	LOAN	CAPITALIZATION
1992	271365.5	208.9	441.5
1993	274833.3	334.7	845.7
1994	275450.6	560.3	1228.6
1995	281407.4	394.9	1264.5
1996	293745.4	754.8	1126.8
1997	302022.5	738	1019.1
1998	310890.1	785.9	1123.5
1999	312183.5	924.2	1351.6
2000	329178.7	855.05	1237.55
2001	356994.3	1024.6464	1424.81
2002	433203.5	6600.6176	9553.67
2003	477533	12895.555	2700
2004	527576	6000	1800
2005	561931.4	2100	1900
2006	595821.6	7560	12570
2007	634251.1	40759.4	27994.7
2008	672202.6	108531.5	49184
2009	716949.7	118586.9	58240.9
2010	694576.2	132876.1	62385.6

Source: Central Bank of Nigeria (CBN) Statistical Bulletin (2010)

Table 1.1: Shows economic growth in form of GDP and mortgage finance as well as capitalization from 1992 to 2010. The table shows that as level of loan increases, the gross domestic product (GDP) also increased insignificantly between 1992 and 1996. Also, as mortgage bank capitalization increase the gross domestic product (GDP) also increased. In 1992, the total mortgage financing was 208.9 million while mortgage capitalization was 441.5 million and the GDP was 271 billion, 365.5 million. In 1996 and 1997 the mortgage financing was 754.8 million and 738 million respectively, the GDP increased to 293 billion, 745.4 million. This increase was also as a result of increase in capitalization. When mortgage financing rose to 132 billion, 876.1 million, the GDP increased to 694 billion 576.2 million. The study also showed that between 2001 and 2003 and between 2007 and 2010 mortgage loans increase astronomically these period also showed that mortgage bank capitalization also had the highest increase not leaving out the GDP.

Table 1.2

LINEAR REGRESSION RESULT

Dependent Variable: GDP				
Method: Least Squares				
Date: 11/13/12 Time: 20:13				
Sample: 1992 2010				
Included observations: 19				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	346223.7	27514.67	12.58324	0.0000
LOAN	-3.852056	3.313676	-1.162472	0.2621
CAPITALIZATION	14.52602	7.037353	2.064131	0.0556
R-squared	0.697124	Mean dependent var		438006.1
Adjusted R-squared	0.659264	S.D. dependent var		163623.9
S.E. of regression	95511.47	Akaike info criterion		25.91582
Sum squared resid	1.46E+11	Schwarz criterion		26.06494
Log likelihood	-243.2003	Hannan-Quinn criter.		25.94106
F-statistic	18.41343	Durbin-Watson stat		0.330795
Prob(F-statistic)	0.000071			

Source :spss computation

Table 1.2 shows the analysis of regression results. Two independent variables were considered (x_1 = mortgage loan and x_2 = mortgage bank capitalization) while GDP was considered as dependent variable. The table revealed that the R2 which it the test of goodness of fit shows that 69% of the variable (GDP) was explained by the independent variables. But for mortgage loan (finance) there was a negative sign showing that as mortgage loans increase, GDP decreased i.e mortgage loans and GDP move in opposite direction.

The T- test which is the test of validity of model estimate shows that the parameter estimate was not significant. Showing that there is no significant relationship between mortgage finance(loan) and economic growth in Nigeria since *t-cal (-1.162472) <t-tab (2.131) at 0.05* level of significant.

1.7 Conclusion

Since the parameter estimate from the test of the validity of the model shows that it was not significant, the study concluded that there was no significant relationship between mortgage financing and economic growth

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