Residential Property Mortgage Delinquency in Anambra State: A Case Study of Union Homes Savings and Loans Plc.

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Abstract
Residential property development as well as other housing projects involves a huge sum of money which a developer may not be able to provide with his equity capital. Financial institutions help to provide capital to finance real property development and this is mainly through the granting of loans. But in practice it is seen that some people borrow from these institutions without repayment. So, this research work aims at finding out the causes of mortgage defaults, its effects on the socio-economic structure of the state as well as suggesting possible measures needed to curtail the incidence of mortgage delinquency in Anambra State. During the course of the research work, several methods will be adopted in the collection of data, which includes the distribution of questionnaires, use of oral interview, and visual observation as well as the secondary source. The data(s) so collected are to be presented using tables, and analyzed in percentages. The use of Chi-square test is adopted in Analysis testing. Conclusively, mortgage delinquency cannot be completely avoided but can be minimized through proper adherence to the recommendations that will be made by the researcher in which one of them is proper monitoring and supervision of the project by the staffs of the lending in institution to prevent wasteful expenditure or diversion of funds.

INTRODUCTION
BACKGROUND TO THE STUDY
Residential land use is development of a part or portion of land to provide shelter, for living, protection against unfriendly weather condition, and for the provision of accommodation for social, political and cultural activities. Residential land use takes a great part of the land area In Anambra State because of the greater number of worker and traders present in the state. Some factors affect the demand for this type of investment; most important factors are:

POPULATION AND HOUSE HOLD TRENDS: Increase in population growth will increase the demand fore houses in the future, but a population stability will require the replacement and modernization of existing ones. Similarly, the family pattern of the population also influence the demand for the type of building design a family will like to live in now or in the future.

INTEREST RATE:
A high interest rate on residential property mortgage restrict investment on housing and its long-term effect is a shortage in residential properties,

SITE:
The neighbourhood or location of the property is very important for the demand residential properties. The property will have to be in a location where the dwellers will not be subjected to noise, air and water pollutions. It will be capable of giving comfort as well

ACCOMMODATION:
The property has to be designed with a number of bedrooms, toilets, bathrooms, and kitchens for an average family in town. In Onitsha, for example most flats are made up of 3-bedroom with one toilet, one bathroom and kitchen.

In the past, majority of houses were built by their owners form their own capital [equity]. This was because costs of construction and building materials wee cheap as compared with what is obtainable today. In the early 1960's and 1970's, a worker in the state can send his children, feed his family and still save enough money sufficient enough to build a house. But today, it is almost impossible for an average worker in the state to embark on building or housing project without the assistance of financial institutions which give out loans at certain interest rates. So for this, it is necessary that a developer or invertors carries out a feasibility and viability appraisal to ascertain the practicability and profitability of such a residential building development. Next to consider should be the finance and its cost. This is because credit, they say is the life blood of real estate as it quickens the time a property is made ready and available to the market. In[1] most town in the state, there are problems of accommodation and if a developer should be left to invest with his equity capital, it will take him a very long time to complete the building but with the help of credit, he can make the property available when there is still demand for the property.

Without credit, real property development will be concentrated in the hands of few developers who will enjoy the monopoly of it to the sentiment of others. But the problem is that some of these people (ie

borrowers or mortgagors) that borrow from financial institutions do not pay back as at when due. The possible causes had to be explored and remedied so as to avert its negative effects on the state and economy as a whole.

1.2 STATEMENT OF PROBLEM

Most property developers in the state source their finance through mortgage loans. This is due to the fact that property development needs a huge sum of money to carry out. But in practice, it is seen that some people borrow from financial institutions without repayment.

This has become a problem which the researcher aims to evaluate and find out why mortgagors default in repayment of loans and as well proper possible solution to the problem.

2.0 AIM AND OBJECTIVES

The aim of the project is to find our why mortgagors default in repayment of loan obtained from mortgagors default in repayment of loan obtained from mortgage as at when due. The under-listed objectives will be pursued to achieve this aim:

i.   To asses the performance of Union Homes
        Savings and loans as a means of increasing have ownership through loan.
ii.   To examine the conditions of most lending
        institutions on granting of loan to investors.
iii.   To determine the level at which borrowers default in repayment of loan.
iv.   To identify possible factors responsible for such defaults.
v.   To ascertain the effects of mortgage delinquency in the socio-economic conditions of the study area.
vi.   To determine relevant measures that should be adopted in remedying the situation.

2.1 STATEMENT OF HYPOTHESIS

(Ho) Null Hypothesis: Residential property or default in repayment of loan by mortgagor does not exist in Ananmbra State.

(Hi) Alternative Hypothesis: Residential property mortgage delinquency or default in repayment of loan by mortgagors does exist in Anambra State.

3.0   RESEARCH METHODOLOGY

The research design used in this study is survey research design, in which a group of items are subdivided by collecting and analyzing data from only a few people considered to be representatives of the entire group. This type of research design an also be referred to as sample design which is usually gotten from the population.

3.1   POPULATION OF STUDY

The study was carried out in various cities of Anambra state using union Homes savings and loans plc as a case study.

3.2   SAMPLE/SAMPLING PROCEDURE

The adopted sampling technique for this research was simple random sampling. This is due to the nature of respondents which include: beneficiaries of mortgage loan, customers and staff of Union Home savings and loans plc. Environmentalists, professionals who engage in housing development. So, random sampling procedures thus allow for equal chance of selection.

3.3   INSTRUMENTS USED FOR DATA COLLECTION

Valuable data and information relevant to this study were collected through:

• Questionnaires
• Oral interviews
• Direct or visual observations

Questionnaires: these are structured questions put down on paper with answer option. They were distributed by the researcher to some financial institutions, staff of Union Homes, its customers and some beneficiaries of loans. The answers required were indicated with "Yes' or "No' option to avoid irrelevant answers from the respondents.

Interviews: oral interviews were conducted which involves verbal interaction between the researcher and the respondents so as to extract information useful for the study.

Direct or Visual Observation: This includes the taking cognizance of facial expression of respondents in order to discern how sincere their answers are.

3.4   DATA ANALYSIS TECHNIQUES

In the presentation and analysis of data, some basic statistical tools were used. Tables were used in the

presentation, the analysis were done in percentages while the testing of the analysis was carried out using Chi-Square test;

It is given by the formula;

$$x^2 = \Sigma \frac{(Oi - Ei)^2}{Ei}$$

i = 1

Where; Oi = observed frequency

Ei = expected frequency.

3.5   DECISION RULE

This is where the test is applied. It goes to address whether a hypothesis test is to be accepted or rejected. The rules are as follows:

i.   Is x^z is equal to zero, it means that the theoretical values are in agreement with observed values and the null hypothesis has to be accepted. If chi-square is not equal to zero, the theoretical value of do not agree,

ii.   If the calculated Chi-square x^2 is greater than the critical value (chi-square from the table), the null hypothesis will have to be rejected and the alternative hypothesis accepted,

iii.   The value of x^2 for critical value (chi-square from table) will be given under a level of significance and degree of freedom.

4.0   PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter deals with the presentation, analysis and interpretation of data collected from oral interview and questionnaire distributed.

4.1   ANALYSIS OF DATA

The responses from the questionnaire are presented in tabular form, analyzed in percentage and tested using chi-square. Meanwhile, in the course of this research, 80 questionnaires were distributed but a total of 25 were properly completed and returned. The copies of the questionnaire that were improperly completed as well as those that were not returned were disregarded in the analysis.

4.1.1   COMPOSITION OF RESPONSES

The report of the responses of the respondents as collated, were presented in the following tables:

Table 1: Table showing whether the lending institutions issue out housing loan or not

Response	Frequency	Percentage
YES	20	80
NO	5	20
Total	25	100

Source: Field survey June, 2007

        From Table 1 above, it shows that most of the financial institution sampled for this study operates housing loan scheme. Only a few ones does not due to the nature of their operation. The percentage of those that operates loan scheme and those that do not are 80% and 20% respectively.

Table 2: Table showing the attitude of estate developers in the state towards mortgage financing.

Responses	Frequency	Percentage
YES	5	20
NO	20	80
TOTAL	25	100

Source: Field survey June, 2007.

        The above table indicates that 20% percent of developers source their capital through mortgage while 80% do not go for loans. This goes to confirm that most housing projects in the state are financed by owner's equity capital, this is due to the fact that the owner's of these projects are mostly few wealthy business men.

Table 3: Table showing whether residential property mortgage delinquency or default in repayment of loan by mortgagors exists in Anambra state or not.

RESPONSE	FREQUENCY	PERCENTAGE
YES	20	80
NO	5	20
TOTAL	25	100

SOURCE: Field survey June, 2007.

        In the above table, 80% of respondents were of the opinion that mortgage delinquency really exists in

the state while a small percentage of 20 respondents objects to that.

So, going by the responses, it can be seen that mortgagors in the state sometimes default in repayment of loan as at when due.

Table 4: Table indicating some reasons why mortgagors in the state default in repayment of loan as at When due.

OPTIONS	FREQUENCY	PERCENTAGE
Compulsory acquisison by government	12	48
Poor feasibility and violability appraisals of intending projects	6	24
Natural or man made hazards like flood, wind, fire, mob action e.tc.	2	8
Death of mortgagor	1	4
Economic recessions	4	16
Total	25	100

SOURCE: Field survey June, 2007

From the table above, compulsory acquisition was identified as the major cause of mortgage delinquency in the state with 32% while poor feasibility and viability appraisal of intending projects ranked second with a 24%. Economic recessions was also identified as a cause of mortgage default with 16% while natural or man-made hazards and death of mortgagor were seen as factors least likely to cause mortgage delinquency with 8% and 4% respectively.

Table 5: Table indicating the effects of mortgage delinquency in the State.

OPTIONS	FREQUENCY	PERCENTAGE
Shortage of finance for property development	5	20
Shortage of affordable housing in the state	4	16
Stringent condition for loans	3	12
Proliferation of slums due to decrease in housing supply	12	3
Monopolization of housing sector by few wealthy individuals in the state.	7	28
High rents in the states	3	12
Total	25	100

SOURCE: Field survey June, 2007

The table above shows that due to mortgage delinquency, the housing sector has been monopolized by few wealthy individuals in the state at a rate of 28% shortage of finance for property development ranks second with 20%, followed by shortage of affordable housing with 16%. The laying down of stringent conditions for loan by banks, high rents and proliferation of slums due to mortgage default by mortgagors are at same prevailing rate of 12%.

Table 6: Table showing remedial measures to be adopted in order to curtail the incidence of mortgage delinquency in the state.

OPTIONS	FREQUENCY	PERCENT AGE
Adequate monitoring of funded projects	8	32
Adequate securitization of mortgagor's character before giving loan.	3	12
Proper selection of projects.	6	24
Wide insurance coverage of property.	4	16
Proper examination of security for loan	4	16
Total	25	(100

SOURCE: Field survey June, 2007

The table above shows that majority of respondents were of the opinion that adequate monitoring of funded projects should be effected from the beginning of construction to its final execution. This to present diversion of fund as well as wasteful spending of project finance- thus 30% effective. Proper selection of intending projects ranked second with 24% while full insurances coverage of funded properties and proper securitization of securities before issuing out loans were considered third with 16% respectively. Adequate examination of mortgagor's character before giving loan is also considered as also a measure to curtail mortgage default incidence.

Table 7: Table showing responses on whether investors should source their development finance through primary mortgage institutions or commercial banks.

Response	Frequency	Percentage
YES	20	80
NO	5	20
TOTAL	25	100

SOURCE: Field survey June, 2007.

From the table above, majority of respondents were of the opinion that sourcing finance for property development through PMIs is preferable to seeking for loan through commercial banks. This is due to high lending rate and stringent conditions laid down by commercial banks for their loans. The percentage responses of those that prefer obtaining loans from PMLs 80% while that of those who prefer going to commercial banks is 20%.

Table 8: Table showing whether or not public servants and other employees in the organized private sector should contribute to National Housing Fund Scheme as a way to become a proud home owner.

Response	Frequency	Percentage
YES	15	60
NO	10	40
TOTAL	25	100

SOURCE: Field survey June, 2007.

From the table above, 60% of the respondents were of the opinion that contribution to NHF scheme by public servants and other employees in the organized private sector will help most citizens in state to build the own houses while 40% of respondents objected to the ideas stating that most public servants are poorly paid and a times held areas of salaries so if 2.5% the megre income they earn is contributed to NHF, they won't be able to meet up their needs with the remaining balance.

4.2 HYPOTHESIS TESTING AND INTERPRETATION

The fundamental goal of this study is to evaluate the hypothesis formulated in chapter one using the data collected and analyzed to establish their validity. A total of 80 questionnaires were distributed but only 25 were properly completed and returned by the respondents. Those that were not returned or properly completed were disregarded in the analysis.

4.2.1 TEST OF HYPOTHESIS

(Ho). Null Hypothesis: Residential properly mortgage delinquency or default in repayment of loan by mortgagors does not exist in Anambra State.

(Hi). Alternative Hypothesis: Residential properly mortgage delinquency or default in repayment of loan by mortgagors exists in Anambra State.

To test the above hypothesis, the data presented in table 3 was used.

Level of significance = 5% (i.e. 0.05) Degree of freedom (d.f) = n - 1 = 2-1 = _Λ_3.84

(From X2 distribution table) The table is shown below:

Response	Observer frequency(Oi)	Expected frequency(Ei)	Oi-Ei	(Oi-Ei) 2	(Oi-ti)2 Ei
YES	20	12.5	7.5	56.25	4.5
NO	5	12.5	-7.5	56.25	4.5
TOTAL	25	25	0	112:5	9.0

Decision Rule:

Critical value = 3.84

Calculated value -9.0

Since calculated value is greater than the critical value, we accept the alternative hypothesis and reject the null hypothesis.

4.3 DISCUSSION OF FINDINGS

Having analyzed the questionnaires and the case study adequately, the following findings were made:

4.3.1 CAUSES

The various identified causes of residential property mortgage delinquency are listed as follows:

(1.) Government action through compulsory acquisition.
(2.) Poor feasibility and viability appraisal of intending projects.
(3.) Natural or manmade hazards.
(4.) Diversion of loan obtained to different ventures.
(5.) Rent control laws
(6.) Economic recessions
(7.) Death of mortgagor before expiration of loan period.
(8.) Sudden shift of major activities in an area.

All the listed causes have been identified and those instrumental can be summed up as the mortgagor's attitudes, government, economic factors, and man-made or natural occurrences.

4.3.2 EFFECTS

The effect of residential property mortgage delinquency as identified in the analysis is as follows:

(A.) Economic Effect: the repayment programme which is not often fulfilled by borrowers has curtailed the capacity of most commercial banks to grant further loans to intending mortgagors and this has resulted to the shortage of capital to finance real property development. There is now an acute shortage of standard housing in some towns of the state and the housing development sector has seemed to be monopolized by few wealthy ones who use it to victimize the less privileged in the state.

(B.) Environmental Effect: Due to fear of default, commercial banks lay down to stringent conditions for their loans which make potential real estate developers find it extremely hard to borrow from them. The shortage of good housing has led to the proliferation of slums as can be seen in Okpoko and some parts of Awka metropolis. Touting and Hooliganism is on the increase and this has a way of scaring solid businessmen who has the intention of investing in the area.

4.3.3. REMEDIES

Having out lined some of the causes and effects of residential property mortgage delinquency in the state, it is also necessary to mention some ways of avoiding such a delinquency. Some of these include:

(1)   Adequate monitoring should be employed by the lending institution so as to ensure that funds were properly utilized and not diverted to a different project.

(2)   Thorough examination of the authenticity of projects and personal character of the borrower should be carried out before a loan is given.

(3.)   Proper viability and feasibility appraisal of projects should be carried out before a loan is granted to facilitate such a project.

(4.)   Properties should be adequately insured against fire and other natural hazard which can cause damage or loss to the property.

(5.)   Adequate compensation on compulsory acquired properties by government. This is to help owners of such properties who must have sourced the finance for its development through mortgage.

(6.)   Comprehensive search on the genuiness of ownership titles of properties to be used as security should be well conducted before acceptance.

5.0   SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

This chapter comprises of summary of findings, the necessary recommendations and relevant conclusions.

5.1 SUMMARY OF FINDINGS

After a proper study has been done, the following findings were made in this research .It has been established that delinquency in residential property mortgage exists in the state. It was further noted that the level of default in repayment of loan is high especially in cities like Onitsha and this has curtailed the capacity of banks to grant further loans to intending mortgagors.

Furthermore, it was discovered that the Government, mortgagors attitude as well as natural and man-made hazards are the main factors responsible for defaults in repayment of loan in the state. Whereas compulsory acquisition of properties by government was the major cause of default in the state, some of the respondents, like the individual developers were of the opinion that if mob- action by touts which often results to vandalization and burning of residential properties can be controlled by state security personnel. It will aid the safeguarding of investments in the state. Some reasons behind this issue of default in repayment of loan were also identified to include poor feasibility and viability study, increased property tax, effect of site, death of mortgagor before full repayment of loan and sudden shift of major activities in an area .the effects of the menace was not forgotten, as it leads to shortage of capital to finance residential property development, shortage of affordable housing and encourages the proliferation of slums. It was also discovered that there are some monitoring exercises by lending institutions on those projects funded by them to prevent diversion of funds.

On measures necessary to curb defaults by mortgagors in the state, the study identified proper carrying out of feasibility and viability appraisal of projects, adequate monitoring of funded projects, reduction of taxes on residential properties, and proper insurance coverage of residential properties. Finally, it was discovered that default in repayment of loan poses a negative influence on the environment, housing sector and the economy of the study area.

5.2. CONCLUSION

Basically, default cannot be completely avoided but can be minimized and that is the reason why lending institutions exercise caution because they are trading basically on people's money. But however, due to uncertainties, recessions, and resource limitations in banking system, it may not be possible to discern correct approaches of finding out the ability of a borrower to pay back.

So in view of this, leading institutions should endeavor to make adequate provisions for bad debts to take care of money lost due to defaults.

5.3 RECOMMENDATIONS

Having treated this issue of default in repayment of loan extensively, it will be incomplete if recommendations are not given to help reduce the problems identified, if not totally eradicating them. The recommendations are as follows;

1. Project developers, lending institutions should first of all carry out a proper feasibility and viability study of any housing project before sourcing or providing finance for its development.
2. Also governments should consider the fate of developers when acquiring their properties compulsorily. In that adequate compensation i should be paid them.
3. The imposition of various forms of taxation on real properties should be minimized so as not to eat deep into the returns of such investments.

Adequate monitoring of projects funded by a lending institution through its staff from initial stage of the constitution to its final completion is necessary so as to prevent expenditure or diversion of funds.

The conditions laid down by most lending institutions should be les stringent so as not to scare many people away from applying for mortgage loans or repaying them. Again the interest rates chargeable on the capital should be reduced so as to make repayment easy and on time.

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