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The Application of Real Estate as Loan Collateral in Nigeria's Banking Sector

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Abstract

The recent reforms in Nigeria's banking sector have underscored the need for due diligence in lending. The study investigates the application of real estate as loan security to establish the extent and process of its use by commercial banks in Nigeria. Questionnaire survey was used to elicit response from a sample of commercial banks selected randomly. The findings demonstrate that real estate is the most widely used collateral instrument and banks follow due process in its application as collateral. However, the use is hindered by documentation and foreclosure problems. The findings are consistent with literature that real estate plays a significant role in secured lending, especially in developing countries. Overall, the borrower's title to the collateral, the nature and quality of the title as well as the value of the real estate are important considerations when banks apply real estate as loan collateral. Thus, real estate, and especially property values, land titles and records are significant factors in contemporary Nigeria's bank lending and with the greater emphasis on the security of credit, real estate is likely to assume even more vital role.

Key words: Bank lending, Banking sector, Collateral, Real estate, Secured credit transaction.

1. Introduction

Financial sector reforms are essential not only to remove inefficiencies and strengthen the institutions but also to keep the sector in tune with business and economic demands. In Nigeria, the sector has undergone series of reforms concentrated mainly in the banking sector. The rationale for these reforms has been the weak structure and ailing state of the commercial banks demonstrated in the high volume of non-performing loans and toxic assets amid poor governance and gross insider abuse. The most recent reforms have brought due diligence in bank lending to the centre of banking operations as the enormous size of non-performing loans and toxic assets has become a major threat to the sector.

The lessons from the banking sector crisis and the subsequent reforms underscore the necessity for adequate and efficient security for loans. It is well established in modern economy that the use of credit is essential for business and economic growth and collateral is an important factor in credit underwriting. In fact, the issue of collateral is of great economic significance (Fleisig, 1996). Collateral is widely used in debt contracts and it is a powerful instrument for dealing with moral hazard (Boot, et al, 1991). It is estimated that 60 – 70 percent of the bank loans in the developed economies are collaterised (Menkhoff, et al, 2006) and in 2005 more than 50 percent of all industrial and commercial loans made by domestic banks in the US were secured by collateral (Leitner, 2006).

Indeed, collateral plays an important role in bank lending all over the world, and real estate is considered important collateral (Gan, 2007). Fleisig (1996) states that in developing countries, regulated banks typically only grant loans secured on real estate or make unsecured loans to borrowers that provide evidence of ownership of real estate on which the bank could file a lien in the event of default. He points out that in rare cases where private lenders extend loans secured on movable assets, it is done on the condition that either the borrower owns a real estate that the lender can attach in case of default or the borrower places the movable asset collateral under the physical control of the lender. Thus, while a wide range of assets are used as loan collateral by banks and financial institutions, real estate appears to occupy a leading position in collateralised transactions, especially in the developing countries. Notwithstanding, however, real estate is required to satisfy certain requirements before being accepted as loan collateral and the lender is expected to apply due diligence to ensure that the object of providing security for the loan is efficiently achieved. Moreover, some issues such as poor titling constitute barriers to using real estate as collateral (De Soto, 2000). Considering the economic importance of collateralised lending and the role real estate plays in such transactions in developing economies, it is apparent that the use of real estate as loan security in a developing economy merits a study.

Although there are varied works on secured lending the studies focus mostly on the developed and emerging economies (Armour, 2008; Berger & Udell,1995a, 1995b; Leitner, 2006; Menkhoff, et al, 2006; Kozolchyk, 2007; Voordeckers & Steijvers, 2006). Thus, the literature is scanty in the study area, particularly as regards the place of real estate in loan collateralisation. This study is intended to fill the gap. It investigates the application of real estate as a collateral instrument with a view to establishing the extent and process of its use by commercial banks in Nigeria. It ascertains the requirements for the application of real estate as loan collateral and the impediments to its use.

The rest of the paper is organised as follows: the next section presents the research questions, and then a literature review followed by a description of the methodology applied. Thereafter, the results are presented and discussed. The final parts of the paper contain the summary and conclusion, policy implications of the findings, and recommendations.

2. Research Questions

Focusing on commercial banks collateral practice in Nigeria the study investigates the following research questions:

1) What are the key requirements for real estate to be taken as loan collateral in Nigeria?
2) To what extent do commercial banks in Nigeria apply real estate as collateral for loans in comparison with other major collateral instruments?
3) What process do commercial banks in Nigeria take in the application of real estate as collateral for loans?
4) What are the impediments to banks using real estate as security for loan?

3. Review of Literature

Banks drive investments and facilitate growth and development of businesses through the credit underwriting process. The financial system has become not only fundamental to the smooth operation of the modern economy, but also dominates the real sector such that what occurs in the financial markets strongly influences the real sector. Thus, continual reforms for sustained efficiency of the sector are universal practice.

3.1 Recent Banking Sector Reforms in Nigeria

The banking sector in Nigeria has undergone several reforms since formal banking was established in the country. Most of these reforms have focused solely on the banking sector while others have been part of the financial sector reforms or elements of economic restructuring. These reforms are widely reported in literature (see for example, Anyanwu, 2010; Fadare, 2010; Iganiga, 2010; Ikhide & Alawode, 2001; Ofanson, Aigbokhaevbolo, & Enabulu, 2010; Somoye, 2008).

Since 2004 however, the sector has undergone two major reforms that have drastically changed the face of banking. The first was in 2004 under Professor Soludo as the Governor of the Central Bank of Nigeria, CBN. This reform was principally bank consolidation. A number of banks had become distressed in the 1990s resulting in widespread loss of depositors' money, and subsequently severe erosion of the public confidence in the sector. The situation was exacerbated by the fraudulent activities of the then so-called finance houses. In an address to the special meeting of the Bankers' Committee on July 6, 2004 Soludo outlined the fundamental problems of the banks as persistent illiquidity, unprofitable operations and poor assets quality. He reiterated these problems in a presentation at the Global Banking Conference on Nigerian Banking Reforms in London on March 29, 2006 where he stated that the financial system was dominated by weak banking system which itself had low depositor confidence and the banks characterised by operational and structural weaknesses.

The reform had the goal of assisting the banks develop into stronger players to guarantee longevity and therefore higher returns to shareholders over time and greater impact on the Nigerian economy (Soludo, 2004). Suludo further explained that consolidating and strengthening the banking system were the first phase of the reforms designed to make the banking sector strong, reliable, and diversified to play active development roles in the Nigerian economy and ensure the safety of depositor's funds; and to make them be competitive and competent players in the African regional and global financial system. The reforms raised the minimum capital base from one billion naira (US $7.53 million at the then exchange rate) and two billion naira (US$15.06 million) for existing and new banks respectively to 25 billion naira (US$188.25 million).

The first stage of the bank consolidation was the attainment of this minimum capital base by December 2005. The CBN encouraged banks to achieve this either through raising fresh capital in the capital market or through mergers and acquisitions. One of the main objectives of the consolidation was to strengthen the capital base and the loanable funds of the banks to enable them compete favourably in the international market and to be able to single-handedly fund large ticket transactions. The second stage was voluntary action by most banks which having met the minimum capital base, went further to increase the base through public offers and mergers and acquisitions. Consequently, the capital base of the top banks ran into hundreds of billions of naira. The consolidation process reduced the number of commercial banks from 89 to 25 through regulatory merger and acquisition and later to 24 through market induced merger and acquisition. Perhaps the most notable merger during the consolidation period was the fusion of the then Standard Trust Bank and the UBA, with the new entity retaining the name UBA plc.

In a public lecture at the convocation ceremony at the Abubakar Tafawa Balewa University Bauchi in December, 2010, the succeeding Governor of the CBN, Mallam Sanusi noted that consolidation programme had some positive impact on the banking sector with bank branches growing from 2,900 in 2005 to 5,500 in mid-2009, the deepening of the capital market and the positioning of the banks to actively participate in a wider range of activities. Some other writers agree that the bank consolidation programme has been beneficial both to the banking and financial services sector and the economy at large (Anyanwu, 2010; Iganiga, 2010). Other researchers however found that previous financial sector reforms in Nigeria which began in 1987 were failures as the health of banks worsened subsequent to the reforms (Ikhide & Alawode, 2001).

The sharp increase in international oil prices and inflow of foreign direct investments in the post consolidation era resulted in excess liquidity in the economy, which enabled the banks to raise more capital. The banks channelled the excess liquidity mainly into the stock market through margin lending and to the oil and gas sector. Banks doubled their gross earnings and their lending capacity improved considerably (Somoye, 2008). Sanusi (2010a, 2010b) asserts that the real sector and indeed the economy were incapable to absorb the excess liquidity. The development, he says, put pressure on the banks to create risk asset amid limited product innovation and diversification, and coupled with poor risk management practices put the banking sector at serious risk, eventually leading to concentration of assets in oil trading and marketing and margin lending.

However, the growth in the banking sector was apparently superficial and unsustainable. Some have argued that the bank consolidation has made only marginal contribution to the growth of the real sector and has not significantly improved the performances of the banks (Somoye, 2008). Subsequent developments in the Nigerian economy and the consequences of the global financial meltdown badly affected the gains of the consolidation programme. Thus, the slump in the international oil price and the collapse of the Nigerian stock market in 2008 saw many commercial banks in the country struggling to survive, apparently due to over exposure to these sectors. As at December end 2008 banks' exposure to the stock market was over ₦754 billion, representing over 27 percent of the shareholders' funds and over 10 percent of the industry total while exposure to the oil industry stood at ₦1.6 trillion and there was re-emergence of extremely fragile financial system similar to the pre-consolidation era (Sanusi, 2010b). The situation made another major reform in just about five years inevitable. Sanusi explains that a stress test subsequently carried out by the CBN, and the Nigerian Deposit Insurance Corporation, NDIC on the country's 24 banks found nine banks to be in a grave situation because of capital, liquidity, and corporate governance concerns. Subsequent investigations, he said, found these banks to be 'technically' insolvent with considerable negative asset value.

In line with the recent trend in government interventions in the financial sector in times of major financial crisis, the CBN under Mallam Sanusi stepped in with another set of reforms in 2009 introducing drastic measures. The measures included sacking and replacement of the CEOs and executive directors of eight ailing commercial banks and injecting 620 billion naira into the system to bail out the nine banks in grave situation, in order to stabilise the system and return confidence to the market and the investors (Sanusi, 2010a, 2010b). Sanusi further explains that the blueprint to reform the Nigerian financial system in the next decade is built around four pillars, namely, enhancing the quality of banks, enabling healthy financial sector evolution, establishing financial stability, and ensuring the financial sector contributes to the real economy.

3.2 Secured Credit Transaction

Credit contracts often require borrowers to pledge collateral as a way of providing security for the debt. Such credits are described as secured. Secured credit transaction therefore refers to the practice in which the debtor or a third party creates an interest in an asset in favour of the creditor, as a guaranty to pay a loan, which upon the debtor's default entitles the creditor to possess and sell the asset to satisfy the obligation (Eyre, 2010). In contrast, unsecured credit transaction has no pledge of asset but considers the personal integrity, the social status and record of accomplishment of the borrower as well as guarantee of a third party.

A prudent lender will grant credit only if he is convinced the loan will be repaid. This prospect of repayment depends on the ability of the borrower to secure the necessary cash flow and his integrity to keep to the terms of the transaction. However, uncertainties characterise the business environment and even the most sincere debtor may lack financial capacity to repay his debt. Accordingly, the practice of providing additional security in the form of pledging of assets of the debtor for the exclusive benefit of the creditor is commonplace. These assets pledged as loan securities are generally referred to as collateral. The widespread practice of secured lending is a demonstration that it is beneficial to business operations and the economic system. Indeed access to commercial credit is one of the necessary elements of business and economic growth and secured lending reduces commercial risks and as such increases access to credit by the borrower (Kozolchyk, 2007). Findings from empirical literature tend to suggest that overall secured lending is socially beneficial and that any social costs associated with it are very likely to be outweighed by these benefits (Armour, 2008).

3.3 Use of Real Estate Assets as Loan Collaterals

Loans may be secured on a wide range of assets such as real estate, equipment, motor vehicles, receivables, financial instruments, or business stock. However, while in the industrialised countries movable property is widely used as collateral, in the developing and emerging countries of Africa, Asia, Latin America, and Eastern Europe real estate is preferred against movable assets (Fleisig, 1996). Fleisig asserts that the use of movable assets as collateral is prevented in these counties by three main barriers, namely; the difficulty, uncertainty and high cost in creating security interest; the slow and expensive process of enforcing security interest; and the flaws in the perfection of security interests. Thus, although secured lending is the most common credit contracts in the formal financial sector and firms possess assets that could be used as loan security; yet in the developing countries insufficient collateral is the most common reason why firms' applications for loans are rejected (Safavian, et al, 2006). Safavian, et al argue that contrary to the belief that lack of sufficient collateral is the reason why many firms cannot access credit, firms have assets that could easily be used as loan collaterals but the problem is in the mismatch between the assets banks accept as collateral and the assets firms own. They also contend that in countries with unreformed legal system regarding the use of collaterals, undue restrictions are placed on the creation of collateral such that most of the assets firms own, especially movable property could not be used as security for loans. The authors estimate for example that only about 10 percent of movable property that could be used to secure loans in the United States would be acceptable as such in Nigeria. Consistent with these arguments, an International Trade Centre technical paper in 2010 observed that the problem of SMEs in accessing credit in developing countries does not lie with their asset composition but with the unreformed collateral systems which unlike the reformed systems do not accept as collateral wide range of assets. The paper pointed out that movable assets rather than land and buildings constitute the majority of the capital stock of businesses especially for the MSMEs and while most lenders in the industrialised countries with the most advanced collateral systems would consider these assets excellent collaterals, the situation is different in most other countries. It further stated that only urban real estate and to a lesser extent new motor vehicles could serve as collaterals in most low and middle income countries.

The importance of real estate investments in the economy and the role of secured credit transaction in business operations underscore the vital place of real estate collateral in the economic system. In a study on the influence of shock in collateral value on firm's debt capacity and investment in Japan, Gan (2007) demonstrated that the bursting of the bubble in the land market had enormous impact on investment behaviour and credit allocation. Gan's results showed positive association between collateral value, debt capacity, and investment and highlighted an economically significant collateral channel through which booms and bursts in collateral asset markets are transmitted to the real economy. Gan believes that the results suggest that collateral could be potent channel in passing on a decline in the real estate market into the economy due to the significance of real estate as collateral.

3.4 Requirements and Impediments to the Use of Real Estate as Loan Collaterals

Although real estate has gained universal acceptance as an important loan collateral instrument, there are some important impediments to its use. Quigley (2001) has argued that the rampant speculation in real estate markets in the South Asian economies in the 1990s contributed considerably to the Asian financial crisis in 1997. Banks competed to lend to real estate developers and investors to the extent of committing short term capital inflows into real estate in anticipation of continued strong economic growth in the emerging economies until real estate prices crashed (Tan, 2000). Market collapse ultimately affects real estate collaterals.

Moreover, low level of land titling and poor documentation of transactions in most developing countries constitute a great challenge to the economy. In his famous book, The Mystery of Capital, Peruvian economist, Hernando de Soto, asserts that the third world and the former communist countries are undercapitalised because assets in those countries are not represented by titles as in the West. He contends that because the rights to assets are not adequately documented, the assets could not be used as loan security or readily be turned into capital. De Soto refers to these assets as dead capital. In contrast, he argues, a mortgage on the entrepreneur's house is the single most important source of funds for new businesses in the United States, a situation made possible by representation of assets with title.

However, the importance of title in secure lending particularly with micro and commercial loans has been questioned (Kozolchyk, 2007). Kozolchyk argues that it is the liquidating nature of the collateral and the lender's right to its possession as protected by public notice rather than the borrower's title to the collateral that prompts the lender to extend credit. He contends that with commercial lending, De Soto's claim of widespread representation of assets in property document and particularly, that "every piece of equipment, or store of inventory is represented in a property document" is false. Citing the Harvard University works of Erica Field and Maximo Torero and other studies in Argentina and South Africa, Kozolchyk maintains that with loans secured on real estate, the role of title was not as sufficient and necessary as could be deduced from De Soto's writings. He emphasised the place of culture and legal system and especially the business culture in commercial lending.

It can be argued that land titling is not sufficient in itself to provide efficient and secured lending practice. Moreover, the borrower's title to the collateral may not be the factor that prompts the lender to grant credit as argued by Kozolchyk but it is an essential back-up and the proof of its existence, nature, and availability for collateral is necessary to the lender, and it is only an efficient titling system that will provide such proof. The lender's right to possession of the collateral may not be useful if the title to it is defective. So, the borrower's title can be a significant factor in real estate collateral and more so in societies characterised by corruption and several forms of business malpractice as in many developing countries.

4. Research Methodology

The study is a cross-sectional survey research. The survey was conducted in January, 2011 using semi-structured questionnaire administered online on a sample of 19 commercial banks selected by simple random process from the 24 operating in the economy at the time. Responses were obtained from nine banks representing 48.4% of the sample and all nine were used in the analysis. Mean and percentages were employed in the data analysis.

The extent of application of real estate as a collateral instrument was measured by the response of the banks on the assets they accept for collateral and the percentages of their loans that were secured on real estate during the period 2005 to 2009. The period covers the year following the first of the two recent reforms and the latest year data were available. On the other hand, the requirements for the application of real estate as collateral instrument were determined by the types of mortgage they operate, the titles they accept for loan security and other requirements for the process to go through. A measure designed to assess the impediments to the use of real estate for collateral has six collateral impediment variables (CIV) each rated on a 4-point Likert format scale ranging from 'strongly disagree' to 'strongly agree'

5. Results

The results of the study are presented in the sections that follow.

5.1 Requirements for Real Estate to be used as Collateral

The results indicate that the key requirements for a piece of real estate to be used as collateral are the borrower's possession of a valid and verifiable title, that the title is one of those acceptable to the bank, the real estate is marketable and indeed possesses some market value, and the consent of the Governor is obtained. The survey determined that legal mortgage is the dominant type with all the responding banks accepting it in their credit transactions. However, about 44% of them also operate equitable mortgage but with caution. In addition, the statutory right of occupancy is the principal title the banks accept for collateral and it is accepted by all the banks. The statutory right of occupancy is the title granted by the Governor of a state in whom all the land in the territory of the state is vested as a trustee by the Land Use Act, 1978. It is much more common with urban land than rural and is generally considered more secure than the other forms of title. About 33% also accept deed of sublease by housing authorities while only about 22% accept deed of conveyance by private persons. A small minority of about 11% accept customary rights of occupancy. The customary right of occupancy is the title granted by the Chairman of a local government under the Land Use Act.

Findings also demonstrate that banks consider the professional valuation of collateral assets an important aspect of the lending process. All the banks always require the valuation of real estate assets offered as collateral before applying such assets as collateral, and approving the loan application. Also, all the respondents require that the consent of the relevant State Governor be obtained for the mortgage transaction as required by law.

5.2 Extent of Application of Real Estate as Collateral

The results reveal that real estate is the most widely used collateral instrument in bank lending in Nigeria. All the responding banks accept real estate as collateral instrument. In addition, about 89% of the respondents accept bank deposit certificate, thus placing it as the second most widely used collateral. The findings also indicate that 66.7% of the banks use capital market instruments (bonds and shares), business stock inventory, and third party guaranty respectively. However, in third party guaranty the banks focus mostly on government guaranty in form of irrevocable standing payment order (ISPO) while in the capital market instruments, the emphasis is on government bonds. The least widely used collateral instrument is money market instruments (Treasury bills, etc) used by about 44.4%, followed by personal properties employed by about 55.6% of the respondents. Nevertheless, the use of personal properties is mostly limited to where banks grant loans for the purchase of properties such as cars. These properties serve as collaterals for the loan.

The findings also show that during the five- year period, 2005 to 2009, the responding banks secured about 66% of their loans on real estate. However, the percentage of the loans secured on real estate declined from about 68% in 2005 to about 63% in 2009 (Table 1).

5.3 Process of Application of Real Estate as Collateral

The findings suggest that the banks follow due process to apply a real estate for collateral. They first determine the nature of title to be mortgaged to ensure it falls into the group acceptable to them for mortgage. Then they carry out title verification to ascertain the nature and validity of the title and obtain a valuation of the collateral asset. In addition, they obtain Governor's consent as required by law and when necessary carry out foreclosure to recover outstanding debt. Before eventually applying the asset as collateral instrument and approving the loan all the banks always carry out title investigation and valuation of the real estate asset. Surprisingly, however, the determination of the collateral value is not important to the banks for foreclosure purposes. Only 22% of the responding banks revalue the collateral instrument before foreclosure notwithstanding that they often carry out foreclosure to recover debt when there is default. In general, as an assurance of the security of the loan the respondents carry out collateral integrity test involving legal/asset security test, collateral financial quality test, and the integrity of the borrower.

5.4 Impediments to the Use of Real Estate as Loan Collateral

The respondents agreed that high cost of documentation, cumbersome documentation process, and cumbersome foreclosure process are impediments to using real estate for loan collateral, with mean scores of 3.38, 3.29, and 3.0 respectively on a 4-point Likert format scale. Foreclosure itself is hindered by several factors that include legal bottlenecks in the process. On the other hand, the respondents disagree that the other CIVs, namely, unreliable valuations from valuation firms, difficulty in the verification of titles, and incidence of fake title documents are impediments.

6. Discussion

With about two in every three collateral instruments being real estate in Nigeria's banking sector, the findings are consistent with existing literature that real estate is an important collateral instrument (Gan, 2007) and that its use is preferred against movable assets in developing countries (Fleisig, 1996; International Trade Centre, 2010; Safavian, et al, 2007). However, the issue of preference for real estate against movable properties does not seem to lie just with the unreformed collateral system of the developing countries as argued by these researchers but also with the poor documentation of titles to assets. As argued by De Soto (2000) the rights to assets are not adequately documented making it difficult to use them as collaterals. In fact, keeping track over movable assets is difficult. These assets can easily change location or ownership without the lender having trace of them. Lenders are not likely to be interested in an extensive application of such assets as collateral. The fixed location of real estate provides a good level of security and therefore makes it more attractive than movable assets.

The findings also imply that more than the possession of a title by the borrower, the validity as well as the nature and quality of the title are essential to the lender. These are demonstrated in the widespread investigation of titles before using them as collateral and the discrimination in the types of titles accepted. Thus, contrary to Kozolchyk (2007) contentions, with loans secured on real estate the role of title is very essential. In fact, the borrower's provision of evidence of title is a precondition for such secured credit transactions. Unfortunately however, only a small proportion of the nation's land holdings are backed by title and most of them are in the urban areas. When considered with the requirement for the real estate asset to be marketable and the preference for the statutory rights of occupancy, the secured lending practice ensures that in most cases only urban real estate are accepted as collateral.

Furthermore, the requirement for professional valuation of prospective real estate collateral by the respondents implies that the value of the asset is a significant factor in secured lending decisions. With the widespread use of real estate as loan security, valuers occupy important place in secured lending in Nigeria's banking sector. Thus, as asserted by Gallimore and Wolverton (2000) valuers play essential role in the mortgage lending process and error on their part could jeopardise prudent lending decision. Also, the low level of revaluation of collateral instruments before foreclosure is similar to what obtains in the US where most mortgage servicers do not always obtain updated valuations before initiating foreclosures (Appraisal Institute, 2011). This implies that foreclosed property may be undersold thus treating the defaulting mortgagor unfairly.

Moreover, the requirement of the land law for Governor's consent for mortgage of land is a major factor in the impediments imposed by the documentation process. The bureaucratic documentation procedure in public land registries constitute substantial delays in processing transactions involving real estate and may even frustrate them. In addition, the identification of documentation problems as a hindrance to the use of real estate as collateral highlights the documentation deficiencies, not only in land transaction but also in virtually all aspects of public business in the country. On the other hand, finding the foreclosure process an impediment appears to confirm the problem of unreformed collateral system of developing countries as argued by the International Trade Centre (2010) and Safavian, et al (2007). Coupled with legal bottlenecks as barriers to foreclosure proceedings the findings suggest that inefficient contract enforcement procedures could be a constraint to the application of real estate as collateral instrument. The results underscore the need for reforms in land registration and documentation as well as foreclosure process to make them more efficient.

7. Policy and Practical Implications of the Research Findings

The findings of the study have some strong policy and practical implications for the government and the banking sector.

1. Since real estate is the most widely used collateral instrument in the country and the possession of a valid and verifiable title is fundamental to its use, land administration practices that make land titling process difficult are detrimental to bank lending and business expansion and should be checked. On the other hand, policy measures to expand land titling and especially granting of statutory rights of occupancy will generate growth to secured credit transaction and contribute to economic growth in the country.
2. Policies aimed at improving the efficiency of land registries in providing records of land titles and transactions are essential to the efficient operation of secured credit transactions in the country. The practice of computerising the key operations of the land registries and land departments in the country should be encouraged.
3. Policy measures that streamline the processes for foreclosure and documentation of mortgage transactions and reduce documentation costs will also contribute to the improvement of the efficiency and growth of secured bank lending.
4. Recognising the importance of land titling and documentation of land transactions to bank lending, the banking sector should collaborate with government at all levels to modernise the land departments and in land titling and cadastral projects.

8. Summary and Conclusion

The paper investigated the use of real estate as collaterals in secured credit transactions by commercial banks in Nigeria. The findings confirm that real estate is the most widely used collateral instrument and that banks apply due process in its collateralisation. However, factors such as documentation and foreclosure problems constitute hindrances to its use. For banks to apply real estate as collateral the borrower must possess a valid and verifiable title, the real estate must possess market value, and Governor's consent is obtained. Legal mortgage is the generally operated form of mortgage and the statutory right of occupancy is the title generally accepted by the banks. In addition, banks carry out title search and valuation of the collateral instrument before employing real estate as loan collateral. When necessary, the lenders carry out foreclosure to recover outstanding loans from defaulting customer.

Overall the findings suggest that the borrower's title, its nature and quality, and the value of the real estate are important considerations when commercial banks in Nigeria apply real estate as loan collateral. We can conclude that real estate and in particular property values, land titles and records are significant factors in bank lending in Nigeria.

9.0 Recommendations

From the findings certain measures are necessary to improve and expand bank lending secured on real estate. The paper accordingly makes the following recommendations:

1. Land titling should be vigorously pursued and considerably expanded.
2. The procedures and costs of title registration and documentation of land transactions should be substantially reduced to make them easier and more affordable.
3. The Land Use Act should be amended to remove the requirement for Governor's consent to be obtained for the mortgage of land.
4. Banks should obtain updated valuations of real estate collaterals before initiating foreclosures.

With the greater emphasis on security of credit in contemporary banking in Nigeria, real estate is likely to assume a more significant role in secured credit transaction. Every policy measure to enable it perform this important economic role more efficiently is worth the while.

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Table 1: Percentage of Loans of Responding Banks Secured on Real Estate (2005 – 2009)

Year	Percentage
2005	68.3
2006	68.3
2007	65.0
2008	63.33
2009	63.33
Average (2005 – 2009)	**65.67**

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