

Challenge of Corporate Governance in the Management of Mortgage Institutions in Nigeria

¹Anthony Adekunle Owojori and ²Luke Olusola Oluwagbuyi

¹Accounting and Business Education Section

Department of Educational Management

Room 111, Faculty of Education. Ekiti State University. Ado-Ekiti, Nigeria

²Department of Accountancy, Federal Polytechnic. Ado-Ekiti, Nigeria

Corresponding Author: Anthony Adekunle Owojori

Abstract

Housing and shelter is among the most basic needs of human beings, second to perhaps food. The importance of housing can be seen in the quality of lives of countries around the world, with developed countries enjoying quality of life than the developing countries. In other words, one of the indices of measuring the quality of lives of citizens of any country has is the availability of shelter. However, it has not been easy for people in less developed countries to afford quality houses due to undeveloped or absence of a mortgage system as is seen in the developed countries, which has been responsible for these countries to attain phenomenal success in the provision of housing for their citizens. Where there are mortgage institutions in the developing countries, the management of these institutions are so poor that they perform below expectations as a result of inefficiency, poor quality of product and lack of corporate governance. This paper addresses the imperative and advantages of corporate governance in running mortgage institutions which will ultimately result in the provision of housing and shelter for Nigerians.

Keywords: mortgage institutions, corporate governance, loans, management, developing countries

INTRODUCTION

The mortgage industry in Nigeria is still underdeveloped despite the many years of existence. Housing in Nigeria has remained grossly inadequate to cater for over 140 million people in the country. The financial intermediation of sourcing loanable funds from the long-term lenders i.e. long term debt instrument has not been developed partially because of the nature of the funds available to the financial sector, that is, the mortgage institutions.

Various interventions by the government at developing this critical sector have not yielded much result over the years. The setting up of the Federal Mortgage Bank of Nigeria by the military administration to provide mortgage loans to the masses has not been successful. Consequently, the Primary Mortgage Institution (PMIs), which were set-up by the private sector as an intervention institute, has had a chequered history. And yet, Housing is said to be the most important basic need of any citizen, perhaps after food and clothes. Some research have linked housing/shelter to the prevalence or otherwise of crimes and criminalities in the society. In other words availability of shelter for the citizens tends to reduce the prevalence of crimes in the society, for individuals are tied to a particular location which helps in detection of criminals etc. Some pundits have similarly linked possession of housing or shelter to the material wellbeing of the citizens in the community and indeed the

measurement of the standard of living of a society, "In particular, the CBN has through its credit policies, required the erstwhile commercial and merchant banks to allocate a stipulated minimum proportion of their credit to the housing/construction sector. In the 1979/80 fiscal year for instance, the minimum stipulated for banks was 5 percent of total loans and advances. The share was raised to 6 percent in 1980 and 13 percent in 1982" (Sanusi, 2003) that is, housing as a source of wealth/capital. It is an acceptable fact worldwide that the possession of a house is a veritable instrument for transactions in the financial market vis; as collateral for loans etc.

METHODS AND MATERIALS

The research was a survey type which collected opinions of stakeholders in real-estate industry through questionnaire about their views on the provision of housing in Nigeria and the presence of corporate governance in the management of corporate institutions in Nigeria. Two thousand stakeholders were sampled which cut across managers in the mortgage institutions, conventional banks, civil servants and private sector workers in Ekiti, Ondo, Osun and Lagos State

Research questions based on provision of housing, mortgage institutions in Nigeria, presence of corporate governance in Nigeria, shareholders' rights, Board composition and duties, appointment of management team, loans disbursement, staffing, and

regulatory authorities were asked and opinions sought on them. The results of the data collected were analyzed, using simple percentages.

RESULTS AND DISCUSSIONS

The results of the findings are discussed as follows:

Provision of Housing

The provision of housing and shelter in a mixed economy like Nigeria falls in part on the private sector and in part on the governments at various levels; local, state and federal. In Nigeria, successive governments/administrations have had to formulate policies to boost the provision of housing to the populace. From direct intervention in form of fiscal policies, i.e. mass building of several units of housing estates which were later allocated to the people and direct subsidy on cement and other building materials, to indirect policies of monetary policies of interest rate reduction, incentives to the PMIs, credit policies etc. governments have had to intervene one way or the other. On the other hand, there are the various private interventions; the individuals, corporate institutions with robust mortgage policies for their staff, financial institutions and mortgage financial institutions. As has been observed earlier in this piece, all this various interventions are yet like a drop in the ocean compared to the number of people living in the country who are normally supposed to be housed, what with the population explosion coupled with the deteriorating standard of living across Nigeria.

Mortgage Institutions in Nigeria

Mortgage institutions are the financial intermediaries between savers of funds and the users of funds for the purpose of developing houses. In Nigeria, there are the primary mortgage institutions also known as the PMIs which are set up to really cater to the need of providing loans and loanable funds either to individuals who are their customers or corporate institutions who develop houses in large quantities in order to sell to the public. Also, most of the commercial banks have set-up mortgage departments or better still mortgage affiliates like the UBA Mortgage, Union Homes which are the arms of these banks competing with the PMIs directly.

Corporate Governance

Corporate governance is the set of rules of ethics and corporate behaviours that add much value to the organization and leads to global best practices. Edebiri (2008) summarized the importance of corporate governance succinctly thus “every organization, like a country should have its own morality and language benchmark” “Organizations that aspire for greatness are aligning their operations with current realities. One of these realities is the demand of the society for a high standard of ethical conduct and ethical profit” he said. Giving the importance of the provision of houses and

shelter in our economy and the central role being played by the mortgage institutions in facilitating funds for these provisions, it is imperative that those managing funds for this critical sector of the economy subject themselves to a set of corporate standard of global best practices. According to the OECD Principles of Corporate Governance, (2004) “The Principles are intended to assist OECD and non-OECD governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries and to provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the process of developing good corporate governance. The Principles focus on publicly traded companies, both financial and non-financial. However, to the extent they are deemed applicable, they might also be a useful tool to improve corporate governance in non-traded companies, for example, privately held and state-owned enterprises. The Principles represent a common basis that OECD member countries consider essential for the development of good governance practices.”

Corporate governance in the financial sector is even more important because of the importance of financial institutions in the economy of any nation. Levine, (2003) put it in the following words “when banks efficiently mobilize and allocate funds, this lowers the cost of capital to firms, boosts capital formation, and stimulates productivity growth. Thus, weak governance of banks reverberates throughout the economy with negative ramifications for economic development.”

Stakeholders’ Rights

Improvement in the delivery of housing and shelter could be effective when the stakeholders in the Mortgage Industry are fully aware of their corporate governance responsibility. With good corporate governance, good housing delivery to the people of Nigeria would be smooth and effective thereby leading to improvement in the standard of living of the citizens. The stakeholders in the mortgage institutions include, the shareholders, the board of directors, management, staff, regulatory authorities etc.

Board Composition and Duties

The board of directors of these mortgage institutions must be people knowledgeable in accounting, banking and financial issues and they must be especially versed in matter of mortgage financing. Non-executive directors of mortgage institutions must be accounting literates but must not be on the permanent payroll of the institutions in order to avoid compromise. People occupying the post of executive directors would ordinarily be at the higher end in the society. Nevertheless, they must not be accounting

illiterate. Board meetings must be summoned periodically to formulate policies and assess compliance/implementation of earlier board resolution and appropriate sanctions should be meted in case of infractions and adequate reward should be given to motivate the management. Dividend policies are also to be benchmarked against performance of the previous year. Also very important consideration in the appointment of board members is taking care in selecting members who are not saddled with so many activities at the same time. In other words, people who should serve on the board of directors of mortgage companies must be those who are serving in few companies as directors in order not to jeopardize the essence of oversight on the executive management.

Executive/Management

As a result of the issue concerned in the mortgage loans and provision of housing for the masses, politics is most likely a consideration in decision making including even the licensing of the PMIs by the supervisory authorities and influencing the appointment of the management team. But, for effective housing delivery in all the strata of life, low-end and high-end of the society, political consideration in the appointment of the management and staff of the must be discouraged. Professionals who have cognate experience in the management of mortgage institutions should be hired with due regard to past performance and achievement in that sectors of the financial market.

Loans Disbursement

Mortgage loans and facilities must be targeted at those who need it in the society and above all those who have the capacity to repay the loans so disbursed. In politically volatile sectors like housing provision, beneficiaries tend to believe that the loans are their own part of the “national cake” and therefore might default in the repayment of the loans. Disbursement must follow due process and proper documentation must be taken on all customers, such documentation as proof of income like salary and wages must not be taken with levity. In many cases, employers’ authorization and guarantee must be sought. The know-your-customer principle must be strictly adhered to before loans are giving out to prospective home owners. The recent melt-down in the mortgage crisis involving defaulters in mortgage repayment in the United States of America is instructive. The major lesson to be learnt from that experience which is already shaking the rest of the financial markets across the world is that proper authorization and documentation of loans must be done. This includes immediate appropriate sanctions on the defaulters and calling in the facilities. Without a sound management and good corporate culture, this might not be possible.

Exposures to directors, companies which directors have interest and politically exposed persons must be duly authorized by the board and guidelines must be strictly followed. We must not forget that periodic auditing by the internal auditors and control officers must be a matter of priority which should be followed by a thorough auditing by the external auditors to be appointed by an independent board of directors in order to know the actual worth and state of the company. Control measures, like inter-departmental transfer of staff and strict control should necessarily be a very important aspect the corporate governance driving the management of the mortgage institutions.

Staffing

Efficient workers in the mortgage sector is a herculean task to get against the backdrop of inadequate manpower plaguing the Nigerian society. However, this should not be an excuse to hire unqualified personnel for the industry. As has been noticed over the years, many staff recruited in this sector is hardly qualified and where they barely possess some level of qualifications, trainings are not conducted regularly to strengthen and polish their skill. Qualified personnel with cognate experience should be hired; they will in turn be deployed to train fresh hands from the universities who have been duly screen and recruited through a well-organized recruitment procedures.

Regulatory Authorities

In Nigeria, the authorities saddled with the formulation and implementations of housing policies as well as the monitoring of strict compliance with the rules are the Central Bank of Nigeria (CBN) as well as the Federal Mortgage Bank of Nigeria (FMBN). While the CBN performs its own role through the monetary policies formulation and implementations, the FMBN is actually the custodian of the housing/mortgage issues in the country. The FMBN interact directly with the PMIs and mortgage banks to facilitate loans disbursement and other sundry directive from the federal government. In view of this, the surveillance role of these institutions must be stepped up for effective monitoring and control of these institutions. Infractions and violations of laid down procedures in the corporate governance must be met with adequate sanctions to serve as deterrent to other would be violators. They should not wait till there is obvious threat to the mortgage market before acting. Surveillance officers must be posted to these institutions promptly for thorough scrutiny of their books.

Adequate reward system should also be instituted to encourage those who are up-to per in their transactions in the form of moral suasion.

CONCLUSION AND RECOMMENDATIONS

The housing challenges in the country would be controlled through a good adherence to corporate governance in the mortgage sector of the financial market in Nigeria. Not only would the system engender rapid housing delivery within a short time, it would most certainly deliver those houses to those who are most in need of them at affordable cost. All the stakeholders must play their parts in the provision of good corporate governance in the industry. The oversight functions of the board of directors on the management of the mortgage institutions should of utmost importance and done in such a way that there is no conflict of interest in the discharge of those duties.

The directors' remunerations and the managements' salaries and commission should be reasonable and adequate to deter unethical practices and to prevent conflict of interests. It is important to also stress that the process leading to the appointment of the board of directors must be transparent to earn them legitimacy in the eyes of the stakeholders. A respected and legitimate board would most likely be able to reign in the excesses of the management faster and coherently than when the members' ascension is rancorous and chaotic.

In the same vein, a professional management team would most likely adhere to laid down procedures and prevent the run-down of the institutions in collusion with the overbearing board.

REFERENCES

Edebiri, C., (2008), Ethics and corporate governance, The Nigerian Tribune

Levine, R., (2003): The Corporate Governance of Banks: A Concise Discussion of Concepts and Evidence

Levine, R., (1997): Financial development and economic growth: Views and agenda, Journal of Economic Literature 35, 688-726.

Levine, R., (2004): Finance and growth: Theory, evidence, and mechanisms, In Handbook of Economic Growth. Eds. P. Aghion and S. Durlauf, Amsterdam: North-Holland Elsevier Publishers, forthcoming.

Organization of Economic Cooperation and Development (OECD), (2004), Principles of Corporate Governance.

Sanusi, J.O., (2003), Mortgage Financing In Nigeria: Issues and Challenges, Lecture delivered at the 9th John Wood Ekpenyong Memorial Lecture, Organized by the Nigerian Institution of Estate Valuers

Wikipedia, An online encyclopedia, (2008)