AN INVESTIGATION INTO THE IMPACT OF MORTGAGE INSTITUTIONS ON HOUSING DELIVERY IN GHANA.

by

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DECLARATION

I hereby declare that this submission is my own work towards the MBA and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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ABSTRACT

Faced with huge housing deficit, Ghana needs between 500,000 and 800,000 units of houses annually to help bridge the housing deficit. In addition a greater number of people would need some financial assistance in order to acquire houses of their own. Institutions charged with the responsibility to provide funding for home financing have made a number of interventions, however the deficit still persists. The main objective of this study therefore was to find out why these institutions have failed to make a meaningful impact on the housing deficit. Specific objectives of the study include a discussion on the popularity of these institutions and why people fail to access their services, discussion of the role of foreclosure or judicial sale in mortgage financing, identification of proportion of loan portfolio of one the institutions dedicated to mortgage financing and finally establishment of the affordability and accessibility mortgage institutions and their services to the general populace.

In order to achieve the set objectives, the researcher assumed the role of gathering both qualitative and quantitative information relevant to the study for analysis. Primary and secondary data sources were used to generate data for analysis with the primary data gathered through the use of questionnaire administered on members of the general who were randomly sampled. Secondary data sources included mortgage portfolio and capital structure of First Ghana Building Company, financial statements and website of HFC Bank, journals etc. An analysis of the primary data was done using SPSS version 16

programe to generate frequencies from which percentages were derived for each question posed.

The study showed that the cost of acquiring a house has gone considerably and therefore many people cannot afford given the generally low level of incomes in Ghana. Majority of the people earn below Gh500 and that institutions face a lot of challenges in trying to foreclose defaulted properties. Many people also are unaware of these institutions because they fail to market mortgage products as aggressively as against other products and also offer less of such products. It was observed that, the institutions involved in home financing are not popular with the Ghanaian populace and many people fail to access their services because they are simply not aware of such institutions. Again, difficult judicial sale processes brings excessive costs to the financing institutions. In addition, such institutions prefer to engage in short term financing which is more lucrative than the long term financing Finally, the high interests rates charged on mortgages make it difficult for people in the low income bracket who form majority of the population to access and afford the services of home financing institutions.

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CHAPTER ONE
INTRODUCTION

1.0 RESEARCH BACKGROUND

One of the most important basic necessities of life is shelter. To protect against harmful weather and other natural phenomena dangerous to mankind, it is necessary to have a good shelter. Shelter has moved from being simple structure that provides basic protection to a more complex structure and sophisticated edifices meant to stand the test of weather and time. This therefore comes with its high costs in terms of its provision. Currently, urbanization is compounding the problem of shelter and housing in the urban areas. According to a report by the United Nations Centre for Human Settlements published in 2007, by 2030 more than 60% of the World's population will live in Towns and Cities, the bulk of which would be in the developing countries.

Ghana, being a developing nation cannot be left out of the trend. This calls for a comprehensive approach to the provision of housing both in the urban areas and rural areas to be able to adequately face the problems that would be created as a result of this rural - urban drift. The picture of housing provision in Ghana as at now is not the best; the gap in housing stock seems to be widening as the years go by. One of the stakeholders involved in solving the problem in housing units deficit is the financial institutions whose responsibility is to provide funding to individuals through mortgage loans to acquire their own houses. They however have not made a positive impact on the housing deficit according to a number of studies conducted and the realities on the ground (Quayson, 2007).

1.0.1 Mortgages

According to Wikipedia,(2008) a mortgage loan is a loan secured by real property through the use of a note which evidences the existence of the loan and the encumbrance of that realty through the granting of a mortgage which secures the loan. A home buyer or builder can obtain financing (loan) either to purchase or secure against the property from a financial institution such as a bank, either directly or indirectly through intermediaries. Mortgages also occur when an owner pledges his interest as security or collateral for a loan. In other words, an owner of a building property can use it as collateral for a new loan without necessarily using it to acquire that particular property. This helps to unlock the extra credit power in landed properties and thereby enhancing economic empowerment.

Just like any other loan, mortgages have an interest rate, a period of repayment and mode of repayment. What makes it easier to acquire houses through mortgage loans is the period of repayment which is usually over a long period of time normally between 15 – 30 years. Also the mode of repayment makes it flexible for those who are unable to finance or acquire the property outright from their own resources to do so through mortgage loans. As such, mortgage lending is the primary mechanism used in many countries to finance private ownership of houses. The mortgage market is usually regulated by governments either directly or indirectly through regulation of the participants or financial markets such as the banking industry. Here, the government through the monetary policy committee of the central bank determines the rate and also regulate the activities of financial institutions. Mortgage loans usually have repayment periods between 15 and 30 years for which the periodic repayments are similar to annuity and are calculated according to the time value of money (Wikipedia, 2008). One basic arrangement with regards to mode of repayment is for the borrower to make fixed monthly payments over a period of 15 to 30 years. Over that period, the principal component of the loan is slowly paid down in reducing balance fashion whilst the interest is calculated on the principal balance outstanding at the end of each period say one month or one year.

The providers of funds for the individual borrowers are the lenders who are the banks and financial institutions. One institution acknowledged around the world over as involved mainly in the business of providing mortgage loans as its core and only business is the building societies. However, this ascertion is gradually becoming a thing of the past because building societies are differentiating themselves and therefore becoming some kinds of financial institutions other than building societies (Enew et al, 1995). They are increasingly taking on additional responsibilities such as estate agency service, conveyancing, anti gazumping insurance etc. They are extending their portfolios to products traditionally associated with the clearing banks. In Ghana, with the liberalization of the financial services sector in 1993, no financial institution is restricted in the kind of products it offers and they are all required to offer products of its choice. The financial institutions provide funds against a property to earn interest income using funds they have borrowed themselves through taking of deposits and issuing of bonds for which interest is paid. Since these institutions also pay interest on the funds (deposits and bonds) lent out, the cost of borrowing is automatically affected. The practice of acquiring houses through mortgages directly from financial institutions is done in the primary mortgage market. In cases where financial institutions and banks in developed countries sell their mortgage portfolios to third party institutions is done in the secondary mortgage markets. The third party institution then receives the interest and principal repayments directly from borrowers in the process called securitization. The study would therefore be exploring and attempting to explain why they have not made the needed impact in housing delivery in Ghana and suggest possible ways to improve on their contribution.

1.0.2 Types of mortgages

Four basic types of mortgage loans can be identified and are classified according to whether the interest charged is fixed or not, terms of repayment, frequency of repayment and whether the full amount is redeemable ahead of the term. For the first type of mortgage, interest may be fixed for the period of the loan or may be variable whilst the rate may be higher or lower depending on the economic conditions prevailing. The second type of mortgage has to do with the term or the maximum term required for repayment. Here, the repayment terms either requires that, the principal amount be paid in bits until the amount in repaid in full-amortization or the repayment can be done any how but the full principal must be paid at the end of the given period. The third type of mortgage is concerned with payment amount and frequency of payment. In this type of mortgage, the borrower has the option to increase or decrease the amount paid periodically and the rate at which these payments are made. The fourth and final type of mortgage is where the borrower cannot do any prepayments. The lender may either restrict or limit the amount of prepayment of all or portion of the loan and the borrower has to endure a penalty for redeeming the loan ahead of the stipulated period of repayment, (Wikipedia 2008).

1.1 PROBLEM STATEMENT

Ghana has a large housing unit deficit which according to studies conducted by Ghana Real Estate Developers Association (GREDA) is between 500,000 and 800,000 units annually. In addition, there are large numbers of uncompleted housing units dotted around major Ghanaian cities and towns for individuals. In a research published in Housing finance international by (Quayson 2007), only 5% of those who intend to own houses in Ghana can do so from their own resources, a majority 60% would require some form of assistance and a woeful 35% can never own houses in their lifetime. Even the construction of affordable housing units by the Ghana Government has stalled because of lack of funds. This calls for a comprehensive approach to financing of houses by financial intermediaries mandated by law to do so to assist those who cannot acquire houses on their own through the design of flexible mortgage schemes to help bridge the housing gap.

Over the years, government, private organizations, banks as well as international partners have provided funds to some institutions to help finance housing units. Also there are a number of financial institutions with mortgage wings and specialized financial institutions whose main business is to provide financing for housing. The First Ghana Building Company Limited formerly First Ghana Building Society was the very first institution incorporated in June 1956 to provide funds to individuals and members to help them acquire their own houses and has been in existence since then. It has been able to assist only 12,500 of its members to acquire properties. Home finance company was also formed somewhere in the 1980's to assist in the development of the housing sector. As recent as August 2007, the International finance corporation the private sector wing of the World Bank made available an amount of $ 25 million to three institutions namely, Ecobank, Merchant Bank and Fidelity bank to boost their mortgage operations. In addition a loan of $30 million from Overseas Private Investment Corporation was granted to Ghana Home Loans to support the housing sector. However with all the above mentioned interventions, there is still a large housing unit deficit which continues to widen every year.

1.2 OBJECTIVES OF THE RESEARCH

The main aim is to find out the impact of financial institutions charged with the responsibility to provide funding for individuals to acquire their own houses on housing delivery in Ghana.

The following specific objectives would help in achieving the main objectives.

- To discuss how popular these financial institutions are to the populace and why people fail to access their services.
- To discuss the role of foreclosure or judicial sale in mortgage financing.

- To identify the proportion of the loan portfolio dedicated to mortgage financing
- To establish the affordability and accessibility of these loan facilities to the populace.

1.3 RESEARCH QUESTIONS

The following would form research questions which would help achieve the main objective of the research.

- Do these institutions commit adequate funds into financing the acquisition of housing units, if not why?
- Are these institutions and their facilities very popular to the general populace?
- Are these institutions and their facilities readily accessible and affordable to the populace?
- Are issues of foreclosures or judicial sale a hindrance to these financial intuitions?

1.4 RELEVANCE OF STUDY

By this research, attention would be drawn to failures of the mortgage institutions and solutions suggested to help raise the quality of life of Ghanaians. Housing finance market is a very important sector of every economy because it accounts for a large portion of Gross Domestic Product through its linkages to land markets, building materials, tools and equipment, durable and non durable goods in terms of home finishing and furnishing and labour markets. As can be seen in most developed countries of the world, the mortgage market forms a chunk of their GDP. Quite a lot of individuals are seeking to acquire their own housing and therefore use their inadequate funds to start projects which end up uncompleted and therefore locking up a lot of funds. With this study, attention would be drawn to the institutions providing mortgage services so that the general can assess them.

1.5 SCOPE OF STUDY

The study aims at investigating the impact of mortgage institutions on housing delivery in Ghana. The study would be limited to the Kumasi metropolis but could be applied to the rest of the country. The study would also limit itself to the case of the premier mortgage institutions in Ghana. Since the institutions have physical presence in most parts of the country, obtaining information would not be a problem. An interview of respondents would also be done to ascertain how popular these institutions are to the populace within the Kumasi metropolis.

1.6 LIMITATIONS OF STUDY

The cost involved in obtaining data from institutions to carry out the study would be a limitation. Aside the cost of obtaining the data, there is the limitation of access to the data as a result of the confidentiality of this information. The collection of primary data over the proposed number of respondents would also cost a lot of money as interviewers would have to be trained to administer these questionnaires.

1.7 ORGANISATION OF THE THESIS

Below is the style of organization of the thesis. The whole report would be structured into five main chapters with the content of each chapter enumerated below.

Chapter one – Introduction (Background to study, problem statement, objectives of study, research questions, relevance of study, scope of study, limitations of study and organization of thesis)

Chapter two – Literature Review (previous work closely related to the intended research)

Chapter three – Methodology (research design, sampling procedures, data collection tools, data analysis/presentation etc.)

Chapter four – Results and Discussions

Chapter five – Conclusions and Recommendations

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

The home financing sector in every economy is not only important but an indispensable sector that every government in most countries and World bodies pay particular attention to. As such there are quite a number of writers and researchers who have researched and written a lot of interesting articles and books about. These articles and researches cover diverse fields of endeavors of the home finance sector. The following is a review of some of these articles and researches closely related to my area of study. The purpose is to bring out findings, theories and concerns already researched, found and relate it to my intended research, draw similarities and then point out the gray areas where my research would concentrate most. All these articles reviewed speak to the home finance sector and have interesting findings that are closely related to my intended area of study. However there are a few gray areas which need some attention, all of these articles having failed to address them. A few of these articles are reviewed below.

2.1 THE PRIMARY MORTGAGE MARKET IN GHANA

Housing delivery in Ghana, has progressed quite well over the years and it is also vital to the economy as it accounts for a sizable proportion of every country's economy. The reason being that, the housing sector can be linked to a variety and a number of other sectors to generate a lot of employment, and triggers many productive activities. Apart from its contribution to productive activities, the sector if well managed can help in the economic empowerment of individuals by being able to use the acquired houses to further pledge as security for additional loans (Housing Finance in Ghana-How-Far.html 11, July 2008). It also serves as a huge area of investment for many investors involved in long term securities such as pensions, insurance and mutual funds. The sector can in addition, help promote social stability and improve the lives of the citizenry. It can further strengthen financial institutions involved in this sector. (Quayson, 2007)

Even though economic performance has improved in Ghana with all the economic indicators pointing to a fledging economy, this sector of the economy has not seen the desired growth. The picture however is not all gloomy as we have some successes. It is expected that with a labour force of 11.29 million out of the 22 million population, and a per capita income of $ 1,400.00 as at 2007, there should have been a marked improvement in the quantity and quality of housing in Ghana. However, 48.9% of the population lives in compound houses whilst 25.3% live in separate houses and 15.3% live in semi detached houses. This is against the backdrop of proliferation of real estate development companies as well as increase in the number of financial institutions. The article however did not adduce any reasons why the housing problems still persists despite economic growth and a number of interventions. While the problem of housing deficit persists, the situation is likely to degenerate as stated by the article since the population of Accra alone now stands at about 4 million people and keep increasing at an annual rate of 4%. Housing facilities in Accra for example has been stretched to its elastic limit and therefore calls for a concerted effort by all the players to help solve this problem not only in Accra but in the whole of Ghana. (Quayson 2007)

The findings of this research contained in the article made mention of the various interventions and the availability of financial institutions but failed to investigate their effectiveness or the impact it has made or why it has not made any meaningful impact on the housing deficit. This is a gray area where the intended research would seek to investigate.

(Quayson, 2007) found that, urbanization and population explosion is compounding the already serious situation even though the outlook of the economy is looking brighter with average annual inflation declining progressively from 25.2% to 14% and 11% during the period 2000, 2003 and 2006 respectively. At the same time, GDP has grown on annual basis from 3.7% in 2000 to 5.8% in 2004 and 6.2% in 2006.

In addition, though SSNIT and other real estate development companies continue to provide houses, a recent study by GREDA indicates that about 500,000 housing units are needed annually to meet the growing demand for houses. One of the many hindrances to finding solution to the housing problem as stated in the article is the cost of houses on the market. It ranges from $35,000 to $350,000 which is way out of reach of the ordinary man in Ghana. Also, the article states that only 5% of the general populace can actually acquire houses from their own resources, a larger majority of 60% would require some form of assistance. This is where the financial institutions come in to provide assistance and then recoup the monies given out with interest over a long period of time usually 25 sector must be well developed and grown to the stature of that of the well developed countries. As it stands now, the size of the financial in Ghana is not as large as compared to that of the United Kingdom and United States. Also, it is dominated by the money markets as against the capital markets mainly because of volatility and unattractive nature of the capital markets. (Glimeti, 2004)

If this sector would grow, and succeed, it would depend on a vibrant and buoyant housing finance industry. The financial sector's role is to mobilize financial resources into a pool and redistribute it to those in need of it to acquire houses. The housing finance sector also has the ability to transform illiquid assets to liquid assets for capital formation. The role of the financial sector is therefore crucial in the success of the mortgage or housing sector (Quayson, 2007). There is however silence on why the financial institutions have not impacted on the housing deficit in Ghana though it was mentioned that, the past seven to eight years has seen a tremendous increase in the number of financial institutions.

One of the many factors that militated against the effective growth of the housing sector is the unfavorable economic condition of hyperinflationary period of the mid and late 1990's where the year end inflation in 1995 was as much as 59.9%. In order to halt the rising trend, in inflation and stabilize the economy, the central bank was compelled to tighten monetary policy. This helped to halt the rising inflation and reduced it to an average of 12.4% year end in 1999. However due to the collapse of the cedi in the year 2000 and rise of in international oil prices, inflation between 2000 and 2003 soared to an annual average of 25%. Even though tighter fiscal and monetary controls helped to keep inflation in check, the rising fuel prices and large import bill made it difficult to control inflation (Quayson, 2007). In addition, government securities on the money market have higher interest rates than the securities on the capital market. Since it is the capital markets that provide long term funds for the functioning of the economy and for that matter financial institutions, could this be a reason why the financial institutions are not making a meaningful impart on the housing delivery (Glimeti, 2004). The fluctuating inflation figures recorded during this period would definitely affect interest rates charged by institutions that lend money to individuals and organization to acquire their own properties. The higher the interest rate, the difficult it would be for people to access these loan facilities.

Cumbersome foreclosures could be yet another factor militating against the effective growth of the mortgage sector. This coupled with difficult land titling procedures and high cost of residential plots may be a deterrent to the many financial institutions from engaging fully in the mortgage business. What is more is that, the land market in Ghana is hampered by lack of information hence its under developed nature (Mahama & Antwi, 2006). There is lack of coordination between land development and provision of infrastructure such roads, electricity and water. Buildings that are put up in places where infrastructure is lacking are abandoned until some infrastructure is provided. Whilst this may be true, one of the reasons for the abandonment of housing projects by individuals may be due to inadequate funds and lack of assistance from financial institutions that are unwilling to lend to the sector.

All the above mentioned factors could affect the affordability of the houses delivered by both the government and private institutions but that of the government tend to be more affordable since the issue of affordability is one the primary pre-occupation of these government institutions. (Quayson, 2007) found that, the affordability of houses offered by real estate companies depends to a large extent on the level of income generally in a given country and the level of expenditure of households, fiscal and monetary policies, house price and financial market characteristics. The issue of the financial market characteristics is of the greatest concern. The research is therefore investigating the financial institutions aspect of the mortgage industry. How the financial market is couched in Ghana would have a great impact on the availability of products such as investment towards one's building in future, unit trusts etc. How is the financial market in Ghana structured and how does it impact on the delivery of good financial products in connection with houses. Although there are a number of financial institutions, their combined effect on housing delivery has been minimal (Mahama & Antwi, 2006).

2.2 QUALITY OF HOUSING IN GHANA

Some of the many constraints in the housing delivery in Ghana can be attributed to the unavailability of formal real estate developers (Karley, 2007). The unavailability of formal estate developers leaves the business of housing construction in the hands of informal construction industry which is not capable of meeting the demand and providing large quantities of houses. The question one may ask is therefore that, does this prevent the financial institutions from lending to this sector because it is largely informal? In their anxiety and quest to find solutions

The government through state agencies (Karley, 2007) previously undertook formal housing construction according to the author. However, having realized that its housing policy was not sustainable, it went into the background to rather facilitate construction by encouraging the private sector to participate. With the high costs associated with housing delivery, the private sector should have been assisted to be able to have access to capital so that they can deliver on this mandate rather than being just encouraged. Even though the housing policies devised by successive governments are laudable, its implementation has not been as successful as it should due to factors such as political instability, poor management and lack of coordination (Mahama & Antwi, 2006).

One very interesting point worth noting is the fact that the housing environment is characterized by haphazard development, inadequate infrastructure, poor drainage, erosion and high population concentration. The materials used are often sub-standard and poor quality (Karley, 2007). In most cases, individuals assume the role of contractors and try to manage their building projects themselves. By so doing, they engage inexperienced artisans and proceed on the construction process on a gradual basis. In their attempt to cut costs, they take a lot of time in constructing the units and eventually compromise on quality. What could be the motivation behind the individuals wanting to manage the construction process from their own meager resources? Could it be that, these financial institutions are not popular enough? Foreclosures or judicial sale as it is known in Ghana does not only afford the lending institution the opportunity to recover funds given out but the faster the expedition of the judicial sale process affords the institution an opportunity to recover the full amount including interest to reflect the time value of the amount.

2.3 JUDICIAL SALE IN GHANA

In Ghana, the law that covers the judicial sale of mortgages is the mortgages act of 1972 NRCD 96. Specifically, section 18 provides the processes and procedures involved in effecting a judicial sale. The section 18 states that, "on failure of performance of an act secured by the mortgage, the mortgagee may apply to the court for an order for judicial sale of the mortgaged property and on being satisfied, as to the existence of grounds for the application the court shall on the conditions that it considers just and equitable grant an order for judicial sale of all or part of the mortgaged property" The process of judicial sale in Ghana begins with the mortgagee filing of a writ in the law courts when a mortgagor defaults on payment of a mortgage loan. After the writ is filed, lawyers for the lender specifically ask for an order for judicial sale. As soon as judgment is given in favor of the mortgagee, the lawyers must immediately file a notice of entry of judgment then serve it on the mortgagor for the process to continue.

The next step for the lawyers of the lender to take is to file an application for a reserve price. The court then appoints a valuer to value the property in question and then submit the valuation report to the courts for consideration. If the report is accepted, the court would appoint an auctioneer to execute the sale by putting up notices of the date and venue of the intended auction. Proceeds from the sale of the property are brought to the court for appropriation to the parties entitled to them (Mortgages act 1972 NRCD 96).

2.4.1 FORECLOSURE PROCESSES IN ITALY.

Financial institutions main business is to lend out money and resources they have mobilized from the public to individuals and institutions that need it. This means that these monies would have to be repaid within the time stipulated by the lending institutions. How successful the lending institution is able to recover monies given out within the time frame would help the institution to onward lend it out to new borrowers and for that matter help that institution to survive. This is directly related to the liquidity of the institution as liquidity plays a pivotal role in mortgage finance. In this direction, the institutions would have to replenish funds to meet the demand for funds from borrowers (Gyamfi & Addai, 2003). In cases where the loans go bad, the institution would have to find a way of recovering their monies through enforcement of the contract in the law court to take over the property. Sometimes these institutions find it difficult to pursue the cases in court through cumbersome processes. In Italy it takes between an average of 60 and 90 months to be able to foreclose a mortgage deal according to an article in the housing finance international entitled better foreclosures make for better mortgage lending the situation is however improving (Bruno, 2008).

This has brought in its wake the problem of excessive legal costs incurred by these mortgage institutions. In addition, there is financial loss for lenders due to the length of time credit remained outstanding in their books. Additional negative consequences of the inefficiency of the judicial system include very low selling rates as only 5% of concluded cases result in sale. Also the sale prices are low barely reaching 50% of corresponding expert valuation. When auctions are advertised, the general public has no easy access to the notices because the notices are published in such a way that only court practitioners could really spot and understand. People do not show up for the sale simply due to lack of information. In addition to the above, the public is often discouraged by the cumbersome nature of the process. One has to physically go to the courts to file out formal application which cannot be done by the individual himself because it would require practioners well vest in matters of this nature and therefore have to be paid for. Another condition in Italy which makes the issue of foreclosure limit access to mortgage finance is that, the actual participation in judicial auction is based on the pre condition of availability of substantial cash both for making the initial admission deposit and later for the payment of the balance in case of winning the bid (Bruno, 2008).

There is the problem of reduced attendance, obscure legal bureaucracy and large cash requirements. The effects of the above problems on are that, a few professional bidders usually people well connected to the courts are trained on the foreclosure procedure and monitor the auctions of the courts. They in turn reap the benefits of cheap deals; sometimes, they could even prevent sales to bidders by exploiting legal instruments such as making a late bid and not having the required initial admission. The obvious impact of these difficult foreclosures on lenders and the borrowers is negative. For the institutions of lending, there substantial loss of credit and financial loss because they are not able to recover amounts they have given out fully. The social behavior of the entire community is affected as people battle in courts for months trying to defend the sale of their properties at cheaper costs to others. The solution to this problem as proposed (Bruno, 2008) was the enactment of Basle 2 accord which became effective in Jan 1st 2008 in all European Union countries. This accord is all about bank's capital adequacy and prudential supervision; here the various lending institution's capital base is based on the riskiness of the loan portfolio so that when you are into the business of lending to a sector of the economy which is very risky such Agriculture and home financing, you are required to have a larger capital base.

The other aspect of the Basle accord, the credit risk of each individual seeking a loan is assessed through the use of public ratings. The banks themselves calculate their own ratings based on loss given default ratio (LGD) which is interpreted as the ability of the bank to recover the money they have given out. What this means is that, the bank would assess each customer based on his or her credit worthiness before granting a loan to him or her. If the assessment proves that the customer could default, more basis points are awarded and in some cases as much as 100 basis points are awarded. This means that, the cost of borrowing for less credit worthy individuals would be high i.e. the higher the risk the more premium paid. The banks themselves are supposed to have more regulatory capital as the riskiness of their portfolio increases which also raises the cost of capital and eventually transferred to the customer. What the Basle accord seeks to correct is that instead of waiting for the loans to go bad and contest it in court, additional precautionary measures and due diligence such as the ones in the Basle accord could reduce default rate and for that matter reduce the cases that have to be contested in the law courts. This particular situation reviewed above applies to the case of Italy. The study would attempt to explore the situation as pertains to Ghana where answers to questions such as what are the processes associated with foreclosure?, is the issue of foreclosure a problem to mortgage?

The issues of due diligence and necessary precaution are very important in any lending process because the character and track record of the individual customer determines to a large extent whether the loan would go bad or not. It is important for the lending institution to know its customers, where they live and the kind of work they do (Rouse, 1989). The financing of building is a special kind lending and need to be treated as such especially when it is always long term. The ability and track record of the customer or borrower with the institution should be taken into consideration and if not available can be sought from the customer's current bankers. Rouse further said in his that, the borrower must be in employment with a stable income as well as his career prospects. This is important because the future income earning potential of borrower may help in decision making as to whether to grant the loan or not. It was found that, the purpose of the home loan should be to purchase a home and not for any other purpose. The lender should therefore ensure that the loan is applied for the purpose for which it was intended. There are problems associated with loans taken to purchase second hand and holiday houses and also when the borrower is going to spend sometime abroad as a period of letting would be allowed. In order to make sure that the loan does not go bad, the amount borrowed should be sufficient enough to cover all costs of purchase including legal fees and cost of repairs as may be indicated by the valuer.

2.4.2 THE CHILEAN MORTGAGE ORIGINATION PROCESS

One fundamental fact underlying the success or otherwise of the mortgage industry is the issue of affordability and access to housing finance. One of the major objectives of this research is the issue of affordability and the access to these facilities. Chile used to have a large housing deficit where the percentage of household unable to afford a house at market conditions in 1990 was 84% which then dropped to 61% in 2003. The sharp drop can be attributed to increase in household income and the fall in interest rate. 33% of the drop was accounted for by increase in household income whilst the fall in interest rate accounts for 63% of the drop (Ruprah et al, 2008). A stable and prosperous economy is a good recipe for the survival of the mortgage sector. The central government's role in all these is therefore drawn into sharp focus. With a stable macro economic environment, interest rates are low and real income is increased. The prerequisites for a successful mortgage market are low inflation, low interest rates stable currency and adequate liquidity (Gyamfi & Addai, 2003).

In the case of Chile, there is an inflation adjusted index unit that makes it possible for financial institutions to protect the real value of their assets. Chile also introduced a privately run compulsory capitalization system. This increased long term savings and pension funds which can be used by the mortgage institutions without any problems. To further strengthen the sector, the government of Chile provides subsidy or guarantee to partially offset a price fall between the origination and sale of the bond. The ministry in charge of housing, finances the origination cost, provides insurance for the loan and assumes responsibility for the auction of the house in case of default. What has been the role of our own government in the mortgage industry and what are they required to do to bridge the housing gap. It would not be effective if the government of the day goes directly into providing housing units by itself or just creating statutes.

2.4.3 MORTGAGE PROCESSES IN GHANA, UNITED STATES AND UNITED KINGDOM COMPARED

Mortgage processes varies from one country to the other and more from developing country to well developed ones. Even though some similarities can be found, the differences are more apparent. How the process is structured determines to a large extent its impact on housing gap and providing effective housing for the citizenry. Also it has a bearing on the affordability and how accessible the mortgage services in each country is to the citizenry which are all objectives to be pursued in the research. Mortgage lending is a major category of business finance in the United States and as such, government gives special attention to it. Mortgages in the United States are commercial paper and can be conveyed and assigned freely to other holders. The federal government because of the importance it attaches to providing houses for each and every citizen, encourage construction and foster mortgage lending created the Federal National Mortgage Association and the Government National Mortgage Association. The responsibility of these two federal agencies is to buy a large number of mortgages from the banks and issue it at a slightly lower interest rate to investors. This process is to allow banks to quickly relend the money to other borrowers, which is intended to create more mortgages than the banks could with the deposits at their disposal. This in turn allows the public to use the mortgages to purchase houses, something the government wishes to encourage. The greatly increased rate of borrowing and lending partly led to the housing bubble of 2000 and 2006. The growth of slightly regulated derivative instruments based on mortgage backed securities, such as collateralized debt obligation and credit default swaps are considered to be behind the 2007 subprime mortgage financial crisis.

Unlike the United States, the United Kingdom mortgage process is largely free from central government and is considered as one of the most innovative and competitive in the world. Borrowing in the United Kingdom is essentially funded either by mutual organizations or property lenders. Mutual organizations such as building societies and property lenders such as banks. Since 1982, when the market was substantially deregulated, there has been substantial innovation and diversification of strategies employed by lenders to attract borrowers which led to a wide range of mortgage types. Building societies are the main stay of funding of housing finance in the United Kingdom and until recently were offering only mortgage loans or property loans (Enew et al 1995 pp 17). With the business environment changing rapidly in recent times, these institutions have no other choice than to change their scope or face extinction. The government was therefore forced to re enact the building societies act in 1986 to provide the building societies additional powers to engage in wide range of services. However unlike the United Kingdom, the institutions are not making as much impact a

In Ghana, the mortgage process is fashioned along that of the United Kingdom where there is little government involvement. The involvement of government is limited to regulation of the sector until the promulgation of the Home mortgage finance law of 1993 PNDCL 329 which enjoined the Home finance company to provide individuals the needed assistance to acquire properties. This format is similar to that of the Federal National Mortgage Association of the United States. However, this was not successful because all the tenets of the contained in the documents were not followed. In the first place, the government was supposed to provide guarantee for bonds issued in favour of mortgages and in addition bear the 90% of the default risk whilst 10% is borne by the HFC. However all these were not done leaving the market in its primary stage (Gyamfi & Addai, 2003). Currently the mortgage process in Ghana has been left in the hands of individuals with the government having no part to play at all. This is what has accounted for the under development of the sector (Karley, 2008).

2.8 CONCLUSION

The pride of home ownership cannot be over emphasized as home owners are held in high esteem by Ghanaians especially. For most Ghanaians, those individuals who are able to acquire their own homes are seen as well accomplished and people who have lived their lives well. If only a few people are the ones who can own houses, the larger majority may be regarded as those who were unable to accomplish anything in life. We cannot therefore rule out unwanted social upheavals created as a result of lack of equal access to facilities. In order to prevent perceived inequity, financial institutions must be able to create equal access to facilities in terms of mortgage loans.

Finally, all the above studies reviewed failed to identify the impact of financial institutions on housing delivery in Ghana which leaves a gray area where this study would concentrate. In addition, there is no particular reason as to why people try to manage the construction of their own building properties with their own resources and why financial institutions fail to advance loans to individuals to help them acquire their own properties. Finally the study would investigate the role of foreclosures or judicial sale in mortgage financing and whether the services of home financing institutions are affordable or accessible in Ghana.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

The intended research was mainly a qualitative gathering of information on why financial institutions have not made the needed impact in bridging the deficit in housing in Ghana. The researcher therefore assumed the role of interviewer and gatherer of mainly primary and secondary data for analysis, generated and evaluated options that would help in decision making. Attention was also paid to the mortgage portfolio of First Ghana Building Company Limited to find out how best it has been able to support the housing sector in Ghana. An investigation of the capital structure was carried out with data from First Ghana Building Company Limited.

The units of analysis in the research are the Home finance companies or mortgage institutions and the customers or beneficiaries of its products. In trying to find out why mortgage institutions have not made the necessary impact, two variables are at play; the organizations' point of view as well as the customers' point of view. To aid in decision making, the outcome of the research can be used now and in the future by the various institutions and possibly policy makers in Ghana. There is however no time limits to the usage of the findings and can also aid policy makers in designing housing policies in Ghana. The characteristics of interest about the unit of analysis are the mortgage operations and its ability to satisfy its customers and bridge the housing gap as a dependent variable. Independent variables such as pricing and advertising are also included in the characteristics of interest. Since the entire research is a descriptive one, some specific environmental conditions include inflation, interest rates and consumer behavior since they have close relationship with the mortgage operations and customers or potential homeowners that in this case are the characteristics of interests.

3.1 RESEARCH DESIGN

The study used the descriptive type of research to gather information about a condition of huge housing deficit. This type was chosen because of its ability to allow implicit and explicit testing of ideas and give it a more diverse and varied approach. It is also quick and practical in terms of financial aspect. To this end, no unit was given any special treatment as in experimental research where one or more units are manipulated under conditions to permit the collection of data.

Two types of data were employed in the study vis primary and secondary data. Primary data sources used were collected mainly from customers and potential home owners. Also, information was collected from experts in the area of mortgage financing as well as the legal aspects of home loan financing precisely foreclosures. As a result of the limitation of home finance institutions, the selection of the companies was by convenience sampling to aid in accessing data. Another source of data used for the research has been secondary data gathered from already published sources including First Ghana Building Company mortgage portfolio, annual reports, status reports and audited accounts. Some were also gathered from Ghana Real Estate Development Association and articles published in the Housing Finance International.

3.2 DATA COLLECTION

The key to the process of research is the availability of data. It is these data that is analyzed and conclusions drawn to aid in decision making. In the process of this research, primary data was collected using the indirect oral investigation and the questionnaire method. In the area of the indirect oral investigation, two key personalities with diverse experience in the field of banking, finance and legal were identified, interviewed and on the basis of their answers, primary data and information were made available. To ensure that the accuracy and reliability of the data was not compromised, these experts were carefully selected because data reliability depended solely on the type of persons. This method was meant to gather information on the issues of foreclosures and judicial sale as well as the adequacy of capital required by these institutions to effectively manage a very good mortgage portfolio as part of objectives to be pursued in the study. The resource persons were interviewed one on one by the researcher on relevant issues bordering on Judicial sale and finance. Their responses were then recorded and used as primary data for analysis

The questionnaire method was employed to elicit primary data from potential home owners who were sampled randomly. The data was collected by personally interviewing, recording the answers provided in structured questionnaire. Some of the questions were unstructured and it is intended to allow the interviewees to share a lot more intimate information. The interview method was chosen because it is more flexible and allows the interviewer to ask follow up questions to elicit additional information from the interviewee. Pretesting of the questionnaire was done with ten respondents to test the validity of the questionnaire and its analysis done but was not included in the final study. The questionnaire used was divided into two parts namely the profile part which dealt with questions regarding civil status, occupation, sex, age, educational background and number of years in employment. The second part dealt with the survey proper which is meant to test the popularity of mortgage institutions among the populace, why some are unwilling to access such facilities and general perception about these facilities as stated in the objectives of the study.

Secondary data was most useful for this research for the purpose of identifying what has already taken place and how it has impacted on the current situation. To this end, data regarding the mortgage portfolio as well as capital structure of First Ghana Building Company limited was obtained to test the proportion of capital dedicated to mortgage financing. In addition, information was obtained from Ghana real estate developers association as well as articles published by Housing finance international. In order to make sure that the data suits the purpose of this research; these data were tested for reliability, suitability, adequacy and accuracy. This is to ensure that it answers questions raised in the research questions, apply to the time period of interest and apply to the population of interest. Once it was determined that all the secondary data sources were authentic and accurate by going back to the sources for verification, it was used conveniently.

3.3 SAMPLING PROCEDURES

The research was conducted after conveniently sampling First Ghana Building Company and Home Finance Company i.e. a non-random convenient sampling was used in selecting the organizations for study. This method is to afford the researcher the opportunity to have access to data and information that would be useful in the study and reduce the time and cost of conducting the study. However, in selecting the individual customers and potential home owners to be interviewed for the study, a simple random sampling without replacement procedure was used to give each and every member of the population a fair chance of being selected and further enrich the outcome of the findings of the interview.

The type of population sampled during the study was a group of financial institutions involved in home financing and then members of the general public. A sample size of one hundred respondents was randomly sampled in simple terms across a population of potential home owners from diverse employment and social background so as to enrich the outcome of the research. To achieve a diverse range of information, no inclusion was imposed however; the respondents must be adults who are gainfully employed either by themselves or others in the private and public sector to be able to provide the kind of information required. Using a simple random procedure for selection of respondents, the population was defined, listed down all the members and then selected members to make up the sample. For this procedure, the lottery technique was employed. Here, the samples were drawn from a box one after the other repeatedly until the sample size of one hundred was reached. The sample size of one hundred was chosen for convenience looking at the time constraint and also bearing in mind the fact that although larger samples are in general better than smaller samples, even very large samples can lead to erroneous conclusions. The population sampled was a homogenous unit and therefore did not require any stratification.

3.4 DATA ANALYSIS AND PRESENTATION

This stage of the research process can be described as the most important because it is at this stage that data collected from both primary and secondary sources are given its true meaning. The first stage of data processing was done by examining the data collected to detect errors and omissions and correct them. Both central and field editing were done. Field editing was done on the questionnaire to correct spelling, mistakes abbreviated words arising from different hand writing by data collectors. Central editing was done before the data was entered into the SPSS programe for analysis. In order to enter the primary data collected for analysis by the SPSS programme, each question on the answered questionnaire was assigned a number. For instance, the various occupations provided by respondents were coded with number e.g. banker=1, public servant=2 and so on. With the structured questions, codes were assigned as follows a=1, b=2 and so on. From here the frequencies for each answer was obtained and then the percentage for each response was calculated all of which were generated automatically by the programme. Data analysis was done with the SPSS version 16 programe, which coded, classified and presented the data using tables and bar charts etc. Secondary data collected after serious scrutiny was processed to bring the meaning required as the objectives of the research demanded. With the mortgage portfolio of FGBCL, the analysis took the form of comparative analysis using percentages to determine the proportion of the total loans portfolio dedicated to home financing. Also secondary data from the Bank of Ghana on advances by money depositing banks to each sector of the economy was converted into mortgages to find out how much of the advances goes directly into the home financing sector. From here the, inferences were drawn between variables, findings informing discussion were made and conclusions drawn. Based on these conclusions, recommendations were made.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.0 POPULARITY OF HOME FINANCING INSTITUTIONS

For the institutions mandated to provide funding for housing to make a meaningful impact on housing delivery, their services must be patronized by the general populace and those seeking to acquire their own houses. However, the situation as at present is that, a lot of people prefer to use their meager resources to start projects on their own which almost always ends up uncompleted. It is assumed that, they would seek assistance from these institutions and then repayment is done over a period between 10-30 years rather than using the resources available to start projects and not finish. In the survey conducted, to test the popularity of these institutions and why people fail to patronize their services, the reasons advanced where as diverse as the categories of people interviewed.

Many fail to access the services of financial institutions involved in mortgage financing simply because they are unaware of the institutions providing such services. In fact, as much as 27.7% of the people were not aware of institutions offering mortgage services whilst 25.3% said they are not interested in such services. The above result is a true reflection of what pertains because these institutions have been in short supply in the financing history of the country. The only institutions dedicated to mortgage financing or home financing until the early 1990's when Home finance company was formed have been First Ghana Building Society and Bank for housing and construction. Bank for housing and construction began having problems leading to its eminent collapse in the early 1990's. So for a greater period of the history of financing in Ghana, very few of these institutions existed as against a number of approximately 200 building societies operating in the United Kingdom alone. As at now, only three well known institutions operate as housing finance institutions and even though many traditional banks offer some products in line with housing finance, they are always relegated to the background. Many of their flagship products are directed at more lucrative sectors such as industry, services, import and export trade etc. The focus is more on the short term borrowing because it is more profitable and has a less default rate. For instance, by the time a mortgage loan is redeemed, the same amount would have been turned around six to seven times on the average. At the same interest rate, the short term loan would generate much more interest income than a mortgage loan. This fact has forced many of the institutions to do more of short term lending to more lucrative sectors. The graph below shows sector-by-sector distribution of advances by money deposits banks.

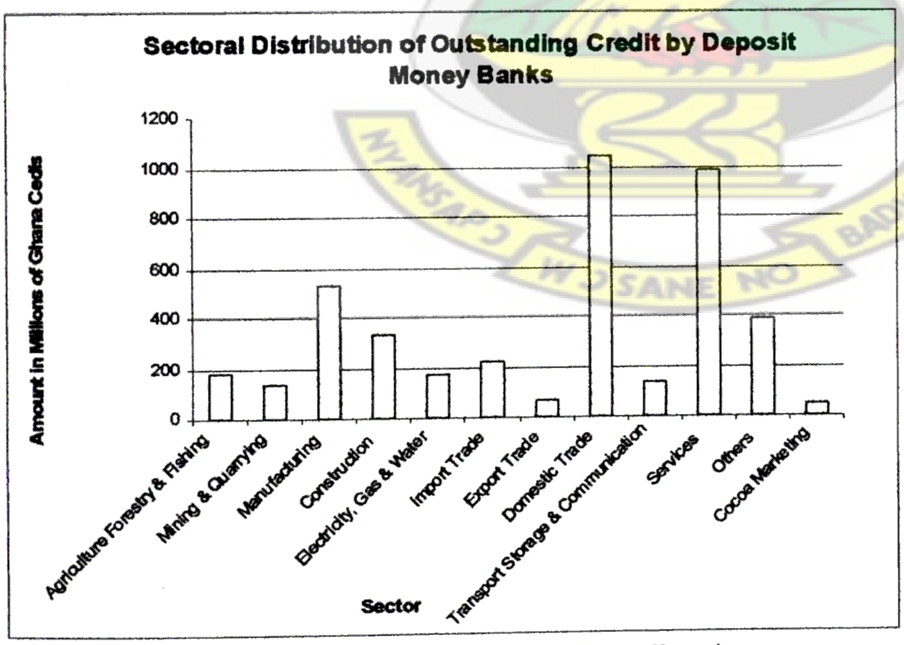

Figure 4.1: Sector by sector distribution of credit. *(Source: Bank of Ghana website.)*

To further buttress this point, with the survey conducted, 75.1% of the people agreed that financial institutions pay less attention to the home finance sector as against other sectors and indeed 36.1% of them strongly agreed. 31.2% of the people disagreed that financial institutions offer adequate mortgage products and 42.7% strongly disagreed. With less or inadequate mortgage products as against other financial products these products are in addition not marketed as aggressive as other products.

One situation that worsened the lack of financing for the home finance sector was the liberalization of the financial services sector in 1993 which opened the floodgates for all institutions to offer all the range of services in the financial services sector. As such, as much as 87.5% of people acquired their homes through the use of their own resources and only 8.3% acquired it through the use of mortgage loans. With no specialization, many of the institutions shifted to only products convenient to them and those that generate high returns within a short time span.

4.1FORECLOSURES OR JUDICIAL SALE IN GHANA

The basic aim of every firm is to make profits and present stream of profits determines to a large extent the long term survival of the business. As such, loans given out for the purpose of acquiring building properties or what ever purpose by financial institutions must be recovered for onward lending to other applicants. By so doing, the turnover of the institution increases which eventually impact positively on its profitability and in turn help increase access to loans to other citizens. The provisions made for bad debts due to unpaid mortgages is about 8% of gross income and in the of case First Ghana Building Company, it is as much as 15% of gross income. At the end of each year, as much as 80% of these provisions are written off as bad loans when these funds can be given to prospective mortgage applicants as loans to increase access to mortgage loans.

One of the mechanisms put in place by lending institutions to recover loans fully or to prevent default is the mortgaging of the property for which the loan was applied. In case of any default, the institution can take over the property; sell it to other parties to recover the amount outstanding. However the process of judicial sale in Ghana has been bedeviled with so much inefficiencies some of which have been discussed below.

4.1.0 Problems of judicial sale

The process of Judicial sale in Ghana seems simple and straight forward in the statutes, however, in practice it is difficult, time consuming, laborious and cumbersome. As a result of the difficult nature of the court process, many lawyers for mortgage lending institutions prefer a private sale which is an amicable settlement out of the court between the mortgagee and the mortgagor. It was found that as much as 50% of the default cases are done through private sale which saves the lending institution as much between 60% - 70% of the cost which would have been incurred through judicial sale. Again the institution saves 80% of the time which would have been wasted if the process had gone through judicial sale. Even with the private sale, the court has to give permission before it can be carried out. As intimated by Mr. K.D.S. Asiri, a lawyer for Ghana Commercial Bank with several years of experience in handling judicial sale cases, it takes too long to conclude judicial sale cases in the law courts. Under the current law, the mortgagors and their lawyers are permitted to file counter and intervening motions during the process which they use very effectively to delay cases unnecessarily.

Secondly, judges are allowed to exercise enormous discretion when it comes to the granting of judgment and can refuse to grant the sale even though the mortgagor has defaulted on the following grounds.

- That the mortgagor is going through too much hardship.
- Circumstances that led to the mortgagor defaulting are uncontrollable.

In place of the sale, judges can grant the mortgagee payment by installments which the lending institutions fail to accept because the very purpose of seeking judicial sale has been defeated. According to lawyer Asiri, experience has shown that, judges tend to be very sympathetic to the mortgagors rather than to the mortgagees. With the payment by installments, the institutions are able to recover only 2% of the loan per year and then interest accruing also goes up by 3% which in effect nullifies the gains made from recoveries.

The problems encountered by lending institutions are therefore, long periods of prosecuting default cases in the law courts increases legal costs for these institutions. Sometimes, some cases are never concluded and the shortest period one can conclude a case on judicial sale cannot be determined. All these periods the case is being prosecuted in court, the institution has to incur excessive legal cost which goes to increase the operational costs by between 5% - 10%. The institution then finds a way of passing these costs to the borrower by increasing the interest rate on borrowing.

Another problem posed by difficult judicial sale process is the loss of value of the property involved either through under valuation or wear and tear on the property due to years of neglect and non maintenance. There are cases where after judgment has been given, the cost of the property becomes less than the balance outstanding in the books of the lending institution. What this means is that the value gained for the sale of the house cannot offset the indebtedness of the mortgagor falling short by 20%. In a non recourse lending, the lending institution cannot recover the shortfall by any means, however in a recourse lending, the institution can recover the balance from the mortgagor if the value of the traded property could not redeem the balance.

Ineffective auctioning process causes a further loss in value of the property through the connivance of auctioneers with some members of the public to purchase the properties at cheaper prices which in some cases are as low as 80% of the true value of the property. For instance, supposed the true value of the property was GH¢ 40,000, the financial institution would eventually get GH¢ 32,000 for it. During the process of auctioning, members of the public who are interested in any property would have to acquire it by offering ready payment which only the very rich in society forming only 5% of the population can afford.

The difficult judicial sale process has a lot of negative effects on the lending activities of the lending institutions and limits access to loans to different borrowers. During the period of battling judicial sale in court, funds which could have been given out to new borrowers to help them acquire their own houses are locked up. Until these funds are recovered it cannot be onward lent to new borrowers who want them. The difficult judicial sale also has the tendency to increase borrowing cost first by high operational cost which is passed on to the borrower and secondly by segmenting the various borrowers in risk categories. Therefore all those falling into the high risk category would necessarily have to incur higher interest rate on the amount borrowed. The high cost of borrowing obviously impacts on affordability since majority of the populace cannot borrow at such high interest rate. The difficulty however is that, since the lending institution has limited information on potential borrowers, they may do the categorization wrongly and end up selecting those more likely to default in payment as low risk borrowers leading to adverse selection. While the lending institution keeps losing value bit by bit over the years from difficult judicial sale process, the whole institution suffers losses which may eventually lead to its collapse.

Difficult judicial sale therefore

- Limits access to potential borrowers
- Increases the cost of borrowing.
- Makes mortgage loans unaffordable

4.2 CAPITAL STRUCTURE AND MORTGAGE PORTFOLIO OF FGBC

First Ghana Building Company is a private company owned by the government of Ghana. By this very nature, it is restricted in the way its capital structure is structured. Currently, 93% of the capital in FGBCL is owned by individual customers through their deposits in current accounts, fixed deposit accounts, special fixed deposits and daakyi mpontuo accounts. The total number of shares represented by this 93% is 18,240. The national investment bank owns 520 shares whilst the ministry of finance has 610 shares. The total number of ordinary shares issued comes to 19,370. The Government of Ghana preference shares in FGBC currently stands at 186.76 preference shares and a capital surplus of 1,341,058.86 has been converted into shares by management to help gear operations.

The stated capital of FGBCL is 7,103,750.30 ordinary shares out of which the total shares owned and already issued being 19,370 represents a woeful 0.27%of the stated capital.

FGBC being a private company raising capital from the public through public floatation of shares is impossible. Out of the total number of issued shares of 19,270, 93% comes from customers through their deposits which are short term funds. These funds apart from being short term are at a greater cost to the organization. The term capital structure describes the sum total of all long term investments in a business (Amanullah et al ,2007 pp33). Sources of these investments include funds raised through ordinary shares and preference shares, bonds, debentures, term loans from financial institutions etc. Also revenue from the business is sometimes ploughed back into the business and is termed retained earnings and can also be described as long term funds. Although capital or funds used in business no matter its source comes at a cost to the business, depending on the source, the cost may be less or more. The business therefore needs to plan sources from which these funds would come from so as to get the best funds for the running of the business because the source of funds and the best composition of capital have a great impact on profitability and solvency. The deposits which are funds mainly used by FGBC being short term does not match the operations of the organization which are long term.

Mortgage lending is long term with the repayment period ranging between 15 to 30 years which short term funds cannot support. Mortgage lending does not only require long term capital but demands that the funds used as capital are substantial and less costly given the average cost of putting up or acquiring a building property. Institutions in this sector therefore require adequate capital base in order to make a greater impact on the housing delivery. Experts in the housing industry have put the cost of a decent three bedroom house between GH¢ 35,000 and GH¢350,000 depending on the location. Also in a survey to inquire about the amount of money adequate for one's own house a greater percentage of the respondents put it between GH¢ 20,000 and GH¢ 30,000.

4.2.0 FGBC LOAN PORTFOLIO

As part of the research, an analysis of the loan portfolio of FGBC was done to determine the percentage dedicated to mortgage lending as follows. The current total loans portfolio of FGBC stands at GH¢ 4,214,013.62 as at the end of December 2008. Out of this amount, only 40.37% is dedicated to mortgage financing and the remaining 59.63% is dedicated to short term financing of less than 48 months known as personal finance loans.

The current total portfolio dedicated to mortgage lending of GH¢ 1,701,317 is an improvement over the 2007 figure by 33.30%. This improvement is only coming from interest charged on non performing loans over the period and not improvement coming from the granting of new loans. With a total portfolio of GH¢ 1,701,317 dedicated to mortgage financing, the institution can only grant loans to only forty-eight applicants assuming the cost of a house averages GH¢ 35,000 to be repaid between the periods of 10 to 20 years that is grossly inadequate considering the number of housing units per year required to bridge the housing gap. According to an expert in mortgage lending who is the operations manager of FGBCL, the demands of mortgage lending requires that adequate funds are committed to it especially because of high cost of building and building materials and its long term nature.

4.3 AFFORDABILITY AND ACCESSIBILITY OF SERVICES OF HOME FINANCING INSTITUTIONS

The cost of putting up a house or acquiring one has gone and continues to go up and as a life time dream of majority of people, individuals seeking to acquire houses of their own put in a lot of effort in order to achieve their life time dream. Available statistics from GREDA indicates that 60% of those who want to own a house would need some assistance whilst 35% are not capable of owning houses in their life time (Quayson, 2007). Majority of those requiring some assistance to enable them acquire a house have to contend with additional challenge of stringent repayment procedures, less than 100 percent finance, high cost of borrowing, deterrent terms and conditions and low income levels which further goes to limit access to home finances.

As a way of protecting their interests, many of the institutions involved in home financing put up terms and conditions which are intended to attract only credit worthy and well committed applicants who are more unlikely to default in payment. Many of these terms and eligibility criteria cut across the various institutions with only slight variations. For instance a condition of advance payment of part of the principal as a pre disbursement condition must be fulfilled by the applicant before the loan is given. In some cases, an upfront deposit of 20% of the amount involved is required for qualification for a facility.

As explained by the institutions, apart from getting credit worthy applicants, it is also meant to commit the applicant to the contract. Once the beneficiary also makes a contribution to the amount, it is assumed that they would do everything to protect their interest, but this is what creates the problem of accessibility since the house would end up not being financed 100 percent. In cases where individuals want to put up the houses on their own, they are required to have acquired and duly registered the plot of land and also must have started at least the foundation from their own resources. In a country where it is so difficult and cumbersome to acquire a piece of land for any purpose, with the attendant multiple sale and subsequent long years of litigation, not many people can really access a mortgage loan this way. As much as 50 percent of people denied of mortgage facilities were on the grounds of not meeting the terms and conditions set by the financing institutions. In addition to these difficult terms and conditions, the processes one needs to go through before finally getting a mortgage facility are long and cumbersome. Some of the institutions require several guarantors and credit references from former or current bankers as part of their credit ratings of individuals all of which may cut off a number of people from accessing mortgage facilities.

One of the effects of the long and cumbersome process involved in applying for a mortgage is the cost incurred in the processes. It also has the effect of breeding corruption which all goes to increase the cost of acquiring a home. In addition the borrower has to contend with high processing fees which sometimes are as high as 2 percent of the amount involved.

Mortgage loans as mentioned earlier are long term loans normally lasting 10 to 30 years with the mortgagor making regular payments monthly or yearly of amounts determine by the lending institution. The policy in Ghana is that no employee should go home with less than 50% of his or her salary. Therefore these regular payments must not exceed 50% of the net salary of the employee or for those not in formal employments, 50% of their income. As such, a criteria to determine credit worthiness applicants is the income to payment ratio which should not be more than 50% and in the case of HFC bank, the ratio cannot exceed 30%. The regular repayments once determined must be followed and complied with without fail by the mortgagor. Using the amortization formula the regular payments amount are determined bearing in mind the principal, period of repayment , interest rate and fair value of the property at the end of the repayment period. The regular repayments include principal as well as interest payments. The principal component of the repayment is deducted from the capital before interests are calculated. So if one refuses or fails to pay any amount on a given repayment date, interest is calculated on the larger capital and makes it large and this is one of the main causes of default in mortgages. Sporadic payments by mortgagors and non compliance with the set repayment schedule yields additional interest. Eventually the amount grows larger and larger until it grows out of proportion. Many people find these repayment regimes very stringent and therefore think they may not be able to redeem their mortgages especially those people who find themselves in the informal sector which unfortunately is largely unregulated in Ghana. A very big hindrance in addition to the one mentioned above is the amount of principal which can be borrowed with 50% of net salary or net income by the mortgagor. In a country where incomes are very low, not many people can conveniently repay substantial amounts borrowed with 50% of their monthly income and in some cases 30% of net income. One of the things the survey sought to find out was the average monthly income and as much as 63.5% earn less than GH¢ 500 a month. The charts below shows how much repayment is required for each principal, given repayment period of 25 and 30 years at 30% and 16% interest rates.

Table 4.1: Schedule of monthly repayments at a given interest rate and period of repayments

Repayment period: 25 years
Interest rate: 30%

Repayment period: 30 years
Interest rate:30%

PRINCIPAL GH¢	MONTHLY REPAYMENT		PRINCIPAL GH¢	MONTHLY REPAYMENT
10,000	266.67		10,000	266.67

20,000	533.73		20,000	533.33
30,000	800.00		30,000	800.00
35,000	933.00		35,000	933.33

Table 4.2: Schedule of monthly repayments at a given interest rate and period of repayments

Repayment period: 25 years
Interest rate: 16%

Repayment period: 30 years
Interest rate: 16%

PRINCIPAL GH¢	MONTHLY REPAYMENT		PRINCIPAL GH¢	MONTHLY REPAYMENT
10,000	133,33		10,000	133.33
20,000	266.67		20,000	266.67
30,000	400.00		30,000	400.00
35,000	466.67		35,000	466.67

With a monthly income of less than GH¢ 500, one can borrow only GH¢ 10,000 at 30% interest rate and a repayment period of 25 years using 50% of net monthly income which is grossly inadequate when it comes to acquisition of a house because the average cost of decent two bedroom house is between GH¢ 25,000 and GH¢ 30,000 according to figures obtained from Ghana Real Estate Developers Association. Majority of the people surveyed also put the amount required for their dream house between GH¢ 20,000 and GH¢ 30,000. As demonstrated in the tables above, the monthly repayment amount would not differ with the period of repayments but what has significant effect on the monthly repayment is the interest rate or the borrowing rate. Clearly it can be seen that, people earning less than GH¢ 500 cannot afford a decent house at the prevailing borrowing rate of 32% per annum and as depicted in the graph below majority of the people surveyed cannot borrow the required amount.

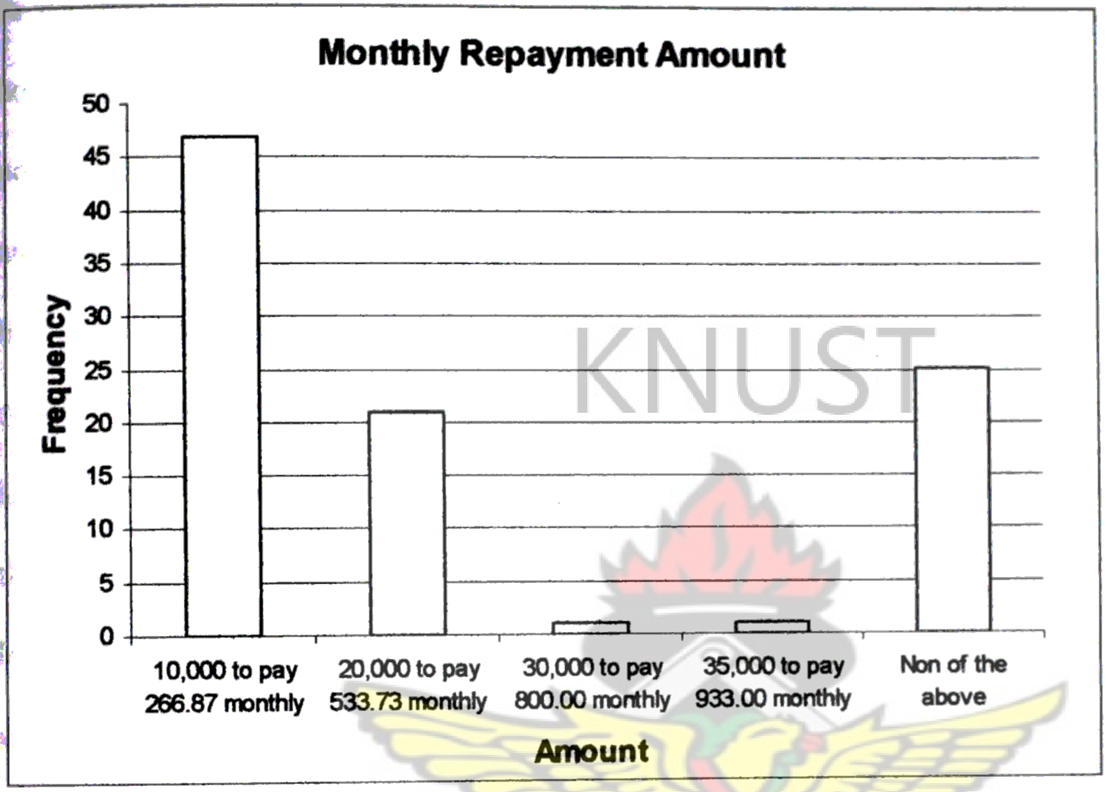

Figure 4.2: Monthly repayment amount

The interest rates has significant effect on the affordability or otherwise of a mortgage loan and for that matter home especially for the low income earners who need some help to enable them afford one. Even though the institutions have concessionary rates for those in the public and civil service, the rates are still very high more so when majority of them fall in the low income category. These high borrowing rates are excessive and limit access to mortgage facilities especially when the rates are significantly low in United States and the United Kingdom.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

In summary, the major findings of the study are that, financial institution involved in home financing are not very popular with members of the general Ghanaian public. Many people fail to access their services because they are simply not aware of such institutions and also because they are very few in Ghana. Instead of sticking to their core business of home financing, many of the institutions tend to focus more on short term financing which is more profitable. To make matters worse, they offer less mortgage products and in addition do not market them as aggressively as other products. The study also found that, the process of judicial sale in Ghana takes too long and therefore brings excessive legal and operational costs to the home financing institutions. The current mortgages law gives too much discretionary powers to the judges who can refuse to grant a judicial sale even though the mortgagor has duly defaulted. In instances where an application for a judicial sale is granted, the auctioning process causes a further loss of value on the property because of lack of proper valuation procedures. With regards to the proportion of loan portfolio dedicated to home financing, the study found that only a small percentage of total loans portfolio is dedicated to home financing. This is due to unavailability of capital and inability to raise capital to support long term activities as the capital available are short term. Also, the long term nature of the home financing sector exposes the institutions to high risks in terms of default. There are also very lucrative short term financing options to the institutions and since they are not bound by any statutes to stay strictly to their core activities, they tend to exercise the more profitable option. In terms of the affordability and accessibility of the services of home financing institutions, it was found that, the services of these institutions cannot be accessed by majority of the populace as a result of high interests charged. The high cost of building also makes it difficult for low income earners to borrow required amounts for the purposes of acquiring their own properties. One remarkable finding achieved by this study was that, the period of repayment does not have any effect on the monthly repayment amount. However, the interest charged has a significant effect on the monthly repayment amount thus the higher the interest rate, the higher the monthly repayment amount. Interestingly enough, as a requirement for qualification for a facility, the applicant is required to contribute an amount towards the acquisition of the property. In some cases, the contribution is as high as 20% of the cost of the property which goes to decrease affordability and limit access.

5.1 CONCLUSIONS

Home financing institutions are an important part of the economy and as such we cannot afford to dispense with. For the housing gap to be bridged significantly there must be a lot of deliberate effort to channel substantial capital into the sector. As a matter of fact, the sector is lacking the necessary attention and the institutions have not asserted themselves very well. Many people fail to patronize the services of the home finance institutions because they simply cannot identify the institutions offering such services. It was also found that, not many of such institutions exist in Ghana and even those available do not pay particular attention to the sector as may be required as many of them have resorted to doing businesses outside their scope. While not many mortgage products are available, the few are not marketed as aggressively as compared to other financial products.

In cases where loans offered by the institutions go bad, the only avenue to seek remedy of the situation is through the process of foreclosure or judicial sale as is known in Ghana. With regards to judicial sale, the role it plays in home financing cannot be over emphasized; however the process is bedeviled with so many challenges and difficulties that it hinders home finance institutions in their quest to bridge the housing gap. It was found that, the process involved in getting judgment on cases takes too long to come to conclusion. By so doing the cost involved also increases which the institutions find a way of passing it on to the consumer thereby increasing the cost of borrowing. At the same time, judges are allowed to exercise a lot of discretion in cases which makes it difficult for the institutions to enforce mortgages in the courts. In addition, the auction process is also fraught with so many irregularities that cause the institutions to loose a lot of value on auctioned properties. A lot of value is also lost through the long period the cases are being dragged in court, when those funds could have been used by other applicants. The effects of these difficulties are that, it increases the cost of borrowing and also limits access to such facilities to other applicants.

As it stands now, any institution willing to operate a building society in Ghana has to contend with difficulty in raising capital to finance its operations because the current laws does not allow such institutions to raise capital from the public through the public floatation of shares. An analysis of the capital structure of First Ghana Building Society revealed that, as a result of its inability to raise capital to finance its operations, it is restricted in using short term deposits to finance its operations which are supposed to be long term. Apart from the short term nature of the capital, it comes at a higher cost to the organization and cannot support its long term operations. As a result of these, the whole mortgage portfolio has been reduced drastically forcing the institution to resort to short term lending.

The terms and conditions put forward by home finance institutions are so stringent that, only very few people can afford to borrow at those terms. In addition, the cost of borrowing is so high that majority of the people who fall within the low income bracket cannot take a mortgage and be able to redeem. This fact becomes more serious when borrowers are further restricted to use only a limited portion of their already meager incomes. The repayment regimes are so stringent that, there is no room to maneuver; it has to be followed religiously to avoid additional interest burden. Many borrowers are unable to follow such procedures and therefore are unable to redeem their mortgages. The cost of the acquisition of houses are not financed 100 percent by the lending institutions as borrowers are often required to contribute certain percentages upfront in order to access a facility. As a result of generally low income levels in the country, as much as 75.8% of the people cannot borrow using their monthly incomes and therefore cannot access mortgage facilities.

5.2 RECOMMENDATIONS

The housing finance sector prides itself as one of the few sectors that has long linkages to other sectors and professions and for that matter has a larger capacity to create employment for many people. Mortgages also serve as an avenue for investment for people wanting to invest in long term securities, however as it stands now, the sector has not received the needed attention to help in its growth. The following suggestions are therefore recommended for consideration by the players in the industry. The central government has a larger role to play in this regard as most of the modifications required for the sector to grow fall directly under its preview.

In the first place, there is the need to speed up the passing of the collateral security act to enable institutions enforce mortgages in a cost effective manner. With the passing of the act, a legal framework would be provided to enable the creation, registration and perfection of mortgage documents (Quayson 2007). Mortgage operations thrive in an economic environment that is stable especially when it comes to inflation which determines base rate and also borrowing rates. High Inflation leads to the adjustment of the prime rate upwards which is the foundation on which borrowing rates are set. Home finance company for instance used to set its rate against inflation to hedge against lost of value in a method known as inflation indexed mortgages therefore as inflation rises the cost or interest burden on the mortgage worsens. One can imagine our environment of high inflationary regimes with some rising as high as 60% how people can ever redeem their mortgages. The current high borrowing rate cannot support a vibrant mortgages market and it is the responsibility of the central government to create an enabling environment for the home finance companies to thrive. A very concerted effort is needed to deliberately grow the sector by initiating low cost housing projects targeted at low income earners as was started by the previous government in 2005. More of such initiatives are needed to significantly reduce the high deficit in housing. At the same time current government fiscal policy does not allow for provision of subsidy for real estate developers. There is the need to consider this issue in very dispassionate manner so that subsidies for real estate developers be introduced to help reduce the cost of houses drastically. One of the factors contributing to the high cost of houses is the difficulty in acquiring and registering lands in Ghana. To this end, the government as well as the institutions must seriously consider undertaking land banking to ease the difficulties. Once these lands are acquired and registered in large quantities, they can be sold to individuals wishing to put up their own houses to ease the land acquisition difficulties not to talk about the multiple sales of lands.

As a matter of fact, many people cannot borrow at the current going interest rate; it is therefore recommended that the government should intervene in taking some of the interest burden off as was done in the case of Chile also a developing country. Chile used to have a very high mortgage debt to GDP, however through the intervention of the Chilean government the situation has improved drastically. In their case, the government initiated a number of public housing schemes to support the efforts made by the private sector. In addition, the government should consider financing the origination costs which contributes significantly to the borrowing costs. As was contained in the original agreement during the formation of HFC, the government was to provide support to it and other institutions and bear 90% of the default risk whilst the institution bears the remaining 10%. This was not however done; it is therefore suggested that this be carried out to help the sector develop.

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CEMBA 2 QUESTIONNAIRE

The following questionnaire is for academic purpose. Your contribution to the following questions would be highly appreciated.

1. Age(a) 20-30yrs □ (b) 30 – 40yrs □ (c) 40 – 50yrs □ (d) Above 50yrs □
2. Sex M □ F □
3. Occupation ....
4. What is the number of years in employment?
   (a)1-5years□ (b)6-10years□ (c)11-15years□(d)above 15years□
5. What is your educational qualification?
   (a) JHS □ (b) SHS □ (c) HND □(d) BSc □ (e) Others □
6. What is your average monthly income?
   (a) less than Gh500 □ (b) 500-1,000 □ (c) 1,001-2,000 □ (d) above 2,000
7. Do you own a house? Yes □ No □
8. How was it acquired? (a) Own resources □ (b) bank loan □ (c) mortgage loan □
   (d) employer's housing loan □
9. Have you taken a mortgage? Yes □ No □have never applied□
10. If yes, what was the amount? (a) 5,000-10,000□ (b)10,001-20,000□ (c)20,001-30,000□ (d)above 30,000
11. Was the amount adequate? Yes □ No □
12. If no, why? (a) not interested □ (b) was denied □ (c) not aware of institutions □
    (d) too cumbersome process □ (e) too stringent repayment procedures □
13. Have you ever been denied a mortgage loan? Yes □ No □
14. If yes, what was the reason? (a) inadequate income □ (b) inadequate collateral □
    (c) did not meet terms and conditions□ (d) others, please specify.....................
15. Financial institutions pay particular attention to the home financing sector as against other sectors (a) strongly disagree□(b)disagree□(c)agree□(d)strongly agree□
16. Financial institutions offer adequate mortgage products as against other financial products (a)strongly disagree□(b)disagree□(c)agree□ (d)strongly agree□
17. Mortgage products are marketed as aggressively as against other products
    (a)strongly agree□(b)disagree□(c)agree□(d)strongly agree□

18. Do you think the home finance sector is adequately financed?

(a)very well financed□(b)moderately financed□(c)less financed□(d)not well financed□

19. How much of a mortgage loan is adequate for a house?

(a)10,000-20,000□(b)20,001-30,000□(c)30,001-35,000□(d)above35,000□

21. Which of the following monthly repayments can you afford every month with each of the corresponding principal granted given duration of 25 years with 50% of your monthly income?

Principal	Monthly Repayment
(a) 10,000	266.87
(b) 20,000	533.73
(c) 30,000	800.00
(d) 35,000	933.00