

ASSESSING THE ROLE OF MORTGAGE IN PRIVATE
HOUSING FINANCE IN GHANA
(A CASE STUDY OF KUMASI METROPOLIS)

By

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DECLARATION

I hereby declare that this submission is my own work towards the award of Master of Business Administration (Finance-Option) 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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DEDICATION

This work is dedicated to my parents, my wife and lecturers of the MBA Finance Programme and friends who supported and encouraged me through this academic journey.

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With the obvious reason of material constraint I wonder if I can sufficiently acknowledge the enormous debt of gratitude which I owe in connection with the writing of this research work. However, believing they will accept my apology, I wish to apologize in advanced those who supported in diverse ways to bring to fruitful this work and had their names not explicitly mentioned here.

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ABSTRACT

The increasing trend of housing deficit in Ghana raises much concern and interest in delving into housing delivery in the country. The annual housing demand of about 100 000 units is not being met, with only about 40 000 housing units currently being delivered per annum. Apparently, the state's effort alone has not been significant in curbing the problem and therefore calls for Private individual involvement in the housing delivery. These strategies apparently depend on the income level of households, meanwhile majority of indigents are low income earners; this calls for other source of funding to Private Housing. Against the backdrop that mortgage industry has proved to be the most capable financier of housing in advanced countries; calls for the study that investigates the role mortgages play in complimenting personal income of individuals in financing housing projects in Ghana as well as making recommendations to improve upon it. The study which was limited to Kumasi Metropolis employed 160 questionnaires administered to both households and mortgage Firms. The findings of the study revealed that majority of household still have negative perception about mortgage loans, as they claim of mortgage loans attract higher interest rates, involves high bureaucracy in documentation; meanwhile a whopping majority of the households are not even aware of the existence and operations of mortgage firms. The study also revealed that majority of the respondents spends between 21%-30% of their income on housing, representing higher proportion of their income. The study recommended that mortgage firms increase their publicity and advertisement on mortgage loans and products so as to increase the awareness on the part of the general public. It was also recommended that the government and the central Bank held joint talk with mortgage firms so as reduce the interest burden that follows mortgage loans through reduction of prime rate and strengthening of the credit referencing bureaus in the country.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The concept of housing or shelter is considered a pre-requisite to the survival of mankind in every society as according to Maslow [Maslow's Theory of Needs] forms the basis for human survival. As an important element for the physical survival, it is ranked second only to the provision of food as one of the basic needs of man. Housing is also seen as one of the best indicators to measure an individual's standard of living. The aforementioned importance makes housing an area of much concern to every society

However, reports and various researches conducted in relation to housing demand and delivery in Ghana have shown that, housing is progressively becoming a rare consumable service in the Ghana. UN-Habitat report (2011) indicates that about 60 per cent of all urban households occupy single rooms. The report further indicated that an over-all sum of 574,000 rooms must be delivered every year, 1,840 per working day. This statistically gives us an average of about four units needed to be provided every minute to overcome the country's housing deficit which is estimated to 1.7 million by the year 2020.

It is worth stating that, there has been some provision of housing by the government in the country over the years. Players include the Social Security and National Insurance Trust (SSNIT) and the State Housing Company (SHC). However these developments driven by the state institutions have not been able to make any significant dent in the demand, as state housing institutions produced less than 40,000 mortgageable units in a 10-year period 1991 to 2000 (Ministry of Works and Housing,

2009). In 2012, a high profile development being driven by Korean construction firm, STX, and which promised the delivery of 200 000 units, fell through due to difficulties in contracting arrangements. Other initiatives targeted at the affordable housing market also ran into difficulties, including capital constraints. This gives evidence of the state's inability of meeting the housing demands of the country now, or in the near future given the same rate of housing production by the state and its institutions. This therefore calls for private participation in housing delivery in the country.

In well developed countries, the mortgage industry has proved to be the most capable and superior financier of the housing needs of the population. However, it is obvious that mortgage crediting in Ghana compared to European and other advanced countries, is relatively undeveloped. While the use of mortgage in financing corporate sector is widely used by banks this does not hold for non-corporate sector. It is true that mortgages have recently started being more widely used in housing finance, yet their importance is still very modest.

The foregoing raises a number of points of interest, including the role these mortgages play in housing finance systems in the wider economy; how they should incorporate processes which improve housing affordability, and how they might be adapted in evolutionary ways to improve low and middle-income access by complimenting their meager disposable incomes in financing homes.

1.2 STATEMENT OF PROBLEM

The increasing trend of housing deficit in Africa raises much concern and interest in delving into housing delivery in the continent. A study conducted by UN-Habitat report (2011) indicated that Ghana's housing deficit will reach 5.7 million rooms by

2020. As much as 90% of Ghana's housing stock has been produced through self-build, and in the cities, overcrowding has become intolerable and many end up sleeping outside. An estimated 53% of households in Accra occupy a single room. The description many analysts give to the housing challenge that confronts African cities is "crisis" (Tipple 1994; Songsore 2003). Statistics have proved that our annual demand for housing which stands at 100,00 units is in a short fall, with just about 40,000 of these housing units being provided currently.

The state's effort alone has not been significant in curbing the problem and therefore calls for private individual involvement in the housing delivery. Ministry of Works and Housing Report (2009) estimated that, about 90% of the housing stock in Ghana is provided by private individuals. This gives an indication that the provision of housing is mainly the effort of private individuals and real estate developers. These households produce housing through self-help approach - the construction of houses by private individuals for their own occupancy mainly through incremental housing strategies. These strategies depend much on the income level of the household. The emergence of Universal banking in the country in 2003 has enabled most of the banks and financial institutions in the country to involve in mortgage lending; this is against the backdrop that, the mortgages as a product has demonstrated to be the most proficient and higher financial solution of housing in advanced countries.

It is therefore worth studying the role mortgages play in complimenting personal income of individuals in financing housing projects in the country; and also to ascertain the challenges individuals face in getting access to the mortgage and makes recommendation to improve upon it.

1.3 OBJECTIVES OF THE STUDY

The main objective of this study is to assess the role mortgage plays in housing finance in Ghana with the view of analyzing the challenges in accessing and issuing mortgage. The study therefore seeks to achieve the following specific objectives:

1. To determine the proportion of individuals' income spent on housing finance in Ghana.
2. To examine the perception of household on mortgage loans.
3. To measure the contribution of mortgage loans to housing finance in Ghana.
4. To assess the obstacles in the mortgage industry in Ghana

1.4 RESEARCH QUESTIONS

1. What proportion of household incomes do they spend on housing Finance?
2. What are the factors household consider before going in for mortgage loans?
3. Do mortgage loans have significant contribution to housing finance in Ghana?
4. What are the major obstacles in the mortgage industry in Ghana?

1.5 SIGNIFICANCE OF THE STUDY

The importance of housing in human development across the world is seen as second to only food, as a major necessity for humanity. Nevertheless, the exacerbating rate of housing deficits in Ghana makes a study in housing delivery to be very quintessential to the socio-economic development of the country.

It is evident that, the various interventions and policies the government has brought in line of housing delivery in its attempt to curb the current housing deficit has been inadequate. Ministry of Works and Housing, 2009 reported that, the government institutions responsible for the provision of housing, were only able to supply less than 40,000 mortgageable units across the 10-year period, 1991 to 2000, which is

comparatively insignificant in curbing the current housing deficit of 1.7 million (UN Habitat, 2011). Considering the trend of diminishing role of governments in curbing the housing deficits, a major responsibility therefore lays on private individuals as far as housing delivery is concern in the country.

However, private housing delivery system in Ghana is seen to be a challenged by many interrelated components which include land and its title registration (Karley and Akomea, 2007), building materials, policies, building guidelines and more significantly the financial element. Finance in housing provision is also very important because of the huge financial requirement for housing production in Ghana. Given the fact that, most households spends larger proportions of their meager disposable income on housing, this study sought to analyze the role mortgage lending play in housing finance and development in the country. It is also important to know factors that inhibit household from acquiring mortgage from the Banks.

It is worth stating that, many researchers have conducted studies along the line of housing in Ghana, notable among them are: “the housing market in Ghana” (Research Department of the Bank of Ghana, 2007), “Urban Growth, Globalization and Access to Housing in Ghana’s Largest Metropolitan Area” (Owusu, 2010). However, none of these studies specifically delve into the role mortgage play in housing finance. The study is therefore very important to the growth of housing market in the Ghana, as it seeks to enlighten individual household on the role of mortgage lending in housing finance and the need to go in for mortgage.

The study also seeks to bring to bare the challenges and difficulties households encounter and possibly hinder them from assessing mortgage. This will enable the banks to adopt the needed measures for a successful delivery of mortgage lending.

Lastly, the study will lay the groundwork and serve as a reference material for students and researchers who want to carry out further research on mortgages in much broader scope in other areas.

1.6 BRIEF METHODOLOGY

The study mainly employed the use of primary data in its analysis. The primary data were gathered through the issuance of simple structured questionnaires to home owners in selected localities within the Kumasi Metropolis as well as top level management of selected banks within Kumasi Metropolis that issue mortgage. Primary data was deemed most appropriate due to the absence of existing secondary data on the necessary information needed from such households.

The descriptive analysis approach was largely adopted to analyze the data collected. This involved the use of frequency tables, bar and pie charts for the analysis. However, a quantitative analysis was also used in the area of correlation and regression to establish the relationship between mortgage and housing finance. The Statistical Package for the Social Sciences (SPSS) and Microsoft Excel were the main analytical tools used in this study.

The population of the study included all households and banks that issue mortgage in the Kumasi metropolis. However due to accessibility and willingness to respond, the study used a sample of 150 individual home owners; this was considered to be scientific as according to Bailey (1982), 30 is considered by many as a minimum size for a sample who were selected through a clustered random sampling method; also 10 mortgage banks and financial institutions were selected through purposive sampling technique.

1.7 THE SCOPE AND LIMITATION OF THE STUDY

The study focuses on mortgage market in the Kumasi Metropolis. The research will concentrate on selected homeowners/households and mortgage banks; and examines the interactions between these banks and their customers, with special emphasis on mortgage lending and how it contributes to housing financing in Kumasi.

However, the study is limited in finding information with regard to transactions on property since such information is shrouded in secrecy in Ghana. Nevertheless, the diverse approaches intended to apply in the data collection and analysis intends to offer a great deal of reliability in the information that will be provided.

Additionally, the scope of the study serves as an inherent limitation. Due to societal disparities within various regions, it is possible that the results of the study cannot be readily replicated elsewhere within the country and even within other developing countries.

1.8 ORGANIZATION OF THE STUDY

The study is divided into five chapters. The chapter one presents the background to the study, the problem statement, objectives of the study, research questions, justification, brief methodology, scope and limitations of the study, and structure of the thesis. Chapter two presents literature on housing and mortgage from theoretical and empirical bases. The chapter further reviews literature on brief history of housing finance in Ghana, housing market, overview of mortgage market and the importance and the role of mortgage lending. Chapter three discusses the method employed in carrying out the study. It describes the research design, population sample and data collection techniques. The kind of analysis perform is also presented under this chapter. Chapter four presents the field work and discusses the survey instrument. The

findings are presented based on the objective of the study. Chapter five gives a summary of the study. Key findings, recommendations and conclusions are presented in this chapter.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This Chapter discusses important development in Ghana's housing industry. It begins by reviewing the theoretical literature on housing and mortgage financing in Ghana, Africa and the world at large. These include the concept and definitions of housing; history of the Ghana's Housing industry and the current developments as well as challenges the housing industry faces. The chapter further explores the history and development of mortgage market in Ghana as well as its challenges and prospects in aiding to finance housing across the world. The chapter closes by delving and exploring into the works of other researchers in relation to this study. It is important to state that works and studies reviewed in this chapter are those that are in relation to the area of this research.

2.1 DEFINITIONS AND CONCEPT OF HOUSING

Generally, housing refers to the practice of ensuring that members in a community have a home to live in; it could be a house or some other kind of dwelling, lodging, or shelter (Wikipedia.com). Moffitt (2008) defines a house as a home when it shelters the body and comforts the soul.

According to United States Census (2012), a housing unit is a house, an apartment, a mobile home, a group, or a single room that is occupied (or if vacant, is intended for occupancy) as separate living quarters. However, the UN suggested explanation of a house is a structurally separate and independent place of abode such that a person or group of persons can isolate themselves from the hazards of climate such as storms and the sun'' was adopted. The definition, therefore, covered any type of shelter used

as living quarters, such as separate houses, semi- detached houses, flats/apartments, compound houses, huts, tents, kiosks and containers.

Needless to say, housing is one of the most important elementary necessities of humanity in every society; as it ranked next only to food in basic human needs. The housing an individual lives in is a symbol of his social standing, as it represents his accomplishments and social recognition a function of his persona and the measure that represents to a large extent, his self-esteem and social appeal. It is the measure of all the good (or bad) things in life that will come to him and his family (Agbola, 1995).

The production of housing and consumption has a direct impact on the socio-economic growth process in diverse ways. In one school of thought, housing is seen to advance economic growth through the expansion of the construction industry and contributes to reducing poverty by increasing the demand for low-skilled workers (Pettinger, 2013). Also in most developed economies, where housing equity is of much importance to households, it is found that homeownership has a significant impact on household wealth accumulation in the long run. In addition, the fact still remains that housing effects definitely on the social wellbeing of the people.

Recently, access to decent housing is no longer considered to be a privilege but a right. According to the UN commissioner for Human Right (UNCHR), access to decent housing is a prerequisite for the application of other fundamental rights and for complete membership in society. As a result, the right to housing is enshrined in many international human rights charters.

The rights to access housing now seen as an essential part of economic, social and cultural rights instruments, hence decline in housing rights constitute human rights

violation (UN factsheet on right to Housing). International Covenant on Economic, Social and Cultural Rights (ICESCR) also guarantees the right to housing as part of the right to adequate standard of living. This notwithstanding, due to different perspective and framework of legal and housing systems across different countries, the definition and precision of these rights are always seen to be problematic at national levels (Edgar et al, 2002).

An average person in Ghana as well as many developing countries is face with three different options as far as housing is concerned. These are either to rent, mortgage a home or build a house. However, the decision of individual to go in for either of these depends mostly on the financial standing of the individual. It has been realized that in early stage of their working lives, they tend to rent apartments and go in to either mortgage or build their own house as income moves above their consumption levels.

In housing Finance, it has been realized that households often spend the largest proportion of their income on housing, that is to say housing forms greater expenditure item in a family budget. This often put constraint on family budget as housing competes with other important budgetary allocations such as payment for utilities, providing healthcare for the family, education, acquiring transport services and even making conscious provisions for retirement and unforeseen emergencies.

2.2 HISTORY OF GHANA'S HOUSING INDUSTRY AND THE ROLE OF GOVERNMENT

Housing development and policies in Ghana after independence can be delineated into three time periods. These are: the immediate post-independence era (late 1950s-Early 1980s); Economic Recovery and Structural adjustment Era (mid 1980s-early 1990s) and post-structural adjustment and Economic Recovery Era (Mid-1990 to the

present). This delineation is based on political and social economic developments which characterized each period.

2.2.1 IMMEDIATE POST INDEPENDENCE ERA (LATE 1950S-EARLY 1980S)

This marks the period where direct government involvement was seen in the housing sector. This period saw the implementation of the Nkrumah's six year Development, which made clear provisions for housing delivery and the state involvement in the industry for the first time. This was evident, by two governmental institutions being instituted to solve housing related matters. These were: the State Housing Corporation (SHC) and the Tema Development Corporation (TDC).

TDC was mainly established to supervise and provide residential facilities in areas that were growing rapidly especially in the industrial area of Tema and also ensure to the construction of Tema Harbour as well as the Dam and residential units at Akosombo. As a result the Volta River project was commissioned to offer sustainable energy to augment the economic activities generated as a result of the building of the port. While TDC concentrated on providing residential housing in Tema, SHC worked in the regions across Ghana, providing real estate countrywide. The challenges with the establishment and the functioning of these bodies began, when subventions, loans and other resources that were allocated to finance these ventures began to fall as a result economic difficulties that arose in the country.

In addition, state owned financial institutions were established to provide financial service to Public housing. Examples of which were the First Ghana Building Society, and Bank for Housing and Construction (BHC). The state continued to involved itself in the housing provision even under various military regimes in the 1970s, noted

among is the construction of Low-Cost Houses in district and regional capitals under the Supreme Military Council I (SMC I) regime. It must be noted that, even though, through this period the private informal sector provided about 80% of the housing (Songsore, 2003), however the state's impact in terms of housing provision was quite significant due to low level of urbanization at the time.

Again, majority of the state housing provisions were geared towards personnel of formal sector neglecting low income earners and the majority poor in the informal sector. Moreover, most of the policy measures implemented at the time which included a control price on rent and poor macro-economic performance stifle private individuals' capability to deliver these residential units. The initial idea of the housing cap which was meant to make housing affordable to the low-income group brought about a problem of accessibility as many private developers were dissuaded from providing rental housing units (Tipple 1987; Songsore 2003; The Stateman 2007).

2.2.2 ECONOMIC RECOVERY AND STRUCTURAL ADJUSTMENT ERA (MID 1980S-EARLY 1990S)

Between 1983 and 1993, the government of Ghana embarked on World Bank/IMF supported Economic Recovery Program and structural Adjustment program (SAP) to restore macro-economic stability and growth (Nugent 1983).

During this period, Ministry of Works and Housing (MOWH) set a National Housing Policy Committee to deal with the deficits in housing provision in the country. This committee focused on providing a policy which was appropriate to provide the necessary housing unit which was decent in order to upgrade the life of the people in urban and rural areas. The main agenda of the committee was to access and find alternatives in solving the problems associated with the finance of housing, accessing

quality building materials, geographical planning, accessing land for construction of these housing units, finding appropriate house designs and complete coordination of the general housing provision.

Eventually, a National Housing Policy and Action Plan were initiated spanning the period between 1987 and 1990. However, as a result of the economic policies at the time, which sought to limit the government's direct participation in major sectors of the economy, the housing policy was directed to create a wholesome environment for which private individuals could participate in the housing provision itself. MOWH therefore recognized the necessity for a complete National Shelter Strategy (NSS) and an augmentation of the Ministry's planning ability to apply housing strategies that conforms to the new reforms. The plan sought to:

- Implement a revised national shelter sector policy and action plan for short, medium and long-term strategies for Ghana with emphasis on rural communities in order to assist them to improve their existing shelter or improve access to the means for providing their own shelter; Develop non-conventional shelter delivery systems which encourages community participation at all levels and with emphasis on local authorities playing a substantial role in the management and development of shelter.
- Create schemes and actions to accelerate management, monitoring and synchronization of housing shelter plans and developments at the ordinary level.
- Make land accessibility easier by streamlining land tenure and title regulations to improve access to land for these housing developments.

- Improve provision of finance for housing and loans for housing provision for individuals.
- Involve local content by way of building materials and promote as much as possible a cost effective building industry.
- Ensure greater involvement of women in planning, implementation and management of shelter programmes.
- This period saw the emergence of private real estate companies on the Ghanaian housing industry with Umbrella name, Ghana Real Estate Developers Association (GREDA).

2.2.3 POST-STRUCTURAL ADJUSTMENT AND ECONOMIC RECOVERY ERA (MID-1990 TO THE PRESENT)

The post ERP/SAP era has seen the strengthening of the forces of liberalization and globalization, and continues the private involvement in the housing policy. However, the government's housing policy has not been different from the ERP and SAP period.

The First Medium-Term Development Plan of Ghana's Vision 2020, 1997–2000, was directed to the delivery of low cost residential buildings, which was comparatively affordable and within the income bracket of the poor in society. The policy presented system by which stakeholders of social security schemes could access a percentage of their contributions to buy houses. Regrettably, none of the strategies of the medium term development plan was instituted as a result of inadequate funding, poor participation of the private sector and the lack of political will to see the plan through.

The GPRS II (2006-2009), another strategic policy plan had a special programme which focused on the pro poor in the society leaving in slums in urban areas. In

another event the Ministry of Water Resources, Works and Housing is at the moment undertaking numerous affordable housing programs. An attempt to solve the challenge of housing deficits in Ghana is being rolled out in the National Housing Programme, where flats are being constructed in various areas across the country. Namely Accra, Kumasi, Takoradi and Tamale

The draft Housing Policy (Ministry of Works and Housing, 2009) also put emphasis on creating enabling environment to help strengthen the private sector participation in housing delivery for low income employees. However, ISSER (2008) reported, the private sector has play no significant role in housing delivery for the urban poor and hence the policy is not likely to materialize unless appropriate incentives are provided to the private sector. Comparative to advanced countries, Ghana's housing industry can still be considered to be in the rudimentary stage, despite significant strides made by major stakeholders in the industry.

It worth noting that in recent times, private developers have taken up the task of providing housing facilities in urban areas. These have culminated in the formation of private estates across the urban areas of Ghana. This has resulted in the formation of large companies to supply building materials for these real estate players. However, these residential facilities are relatively expensive and only serve the rich and expatriates in the country.

2.4 HOUSING COST IN GHANA

Housing delivery in Ghana is influenced by a combination of many interrelated components aside the finance component; among these are land, infrastructure, building materials, policies, building regulation etc. However, finance remains the

major important component in housing delivery as it requires a huge financial obligation involved in housing construction.

In trying to estimate housing cost in the country, a study by research department of the Bank of Ghana revealed that, cost of most houses built by estate developers differentiated by the housing. At the time of the survey, semi-detached house were price within the range of \$30,000 to \$90,000, while detached self-contained houses cost between \$50,000 and \$110,000.

The study further revealed that due to the large cost of the houses developed by these real estate developers, most of them end up being bought by foreigners leaving in Ghana and Ghanaians leaving abroad. On the causes of the continuous increase in the prices of these houses it was revealed that, the high cost of raw materials for building, cost of land and labor cost were the major forces behind the rising prices in Ghana.

Again, the complications related with land tenure system is also another determine factor in house pricing in Ghana. Multiple sale of land, lack of transparency and difficulties in transferring land are among the various effects of price hikes of land. This creates a serious problem for the formalization of a robust housing industry.

2.5 THE CONCEPT OF MORTGAGE LENDING

Mortgage is a legal document that pledges a property to the lender as a security for payment of a debt. Thus in mortgage lending a borrower uses his/her property on which a loan is secured. Some other quarters use Deed of Trust instead of mortgage.

Then stakeholders of the mortgage market are:

- a. The borrower also known as the mortgagor. This uses his property as a surety for the loan.

- b. The lender also known as the mortgagee. This offers the loan and takes the surety for the borrower.
- c. There also the mortgage bankers who pool all the loans given and securitize them to be traded on a secondary mortgage platform.
- d. Intermediaries also exist between the mortgagor and mortgagee known as the mortgage brokers. The brokers find appropriate lenders with good conditions for the borrowers and receive a commission for facilitating the process of the loans.
- e. Finally there exist a state machinery that regulates the activities of the mortgage market known as the mortgage regulatory institution. They form the rules and regulations associated with the market.

For the mortgage market to function as a stable system of providing funds for housing there is a need for the market to function in certain framework. The macroeconomic conditions of the economy should be stable enough to appeal investors. The regulatory institutions should also institute solid systems for recovery of debts and land registrations and proper construction procedures.

2.5.1 TYPES OF MORTGAGE LOANS

In Ghana, there are basically five types of mortgage loans operated by financial institutions. These are:

- a. Home Purchase Mortgage/First Time Buyer: This credit facility is designed to aid individuals or companies to purchase house for their own use or rental purposes. This type of mortgage is designed for both first time buyers and existing home owners. The borrower in this case is expected to pay a certain minimum proportion of the total cost and the bank finance the rest, usually in

Ghana the borrower pays 15% and the Bank finance 85% (Cal Home Mortgage Solutions).

- Home Equity Mortgage: This type of mortgage enables borrowers who currently own a home to release some of the equity on that property to either in improvement of the existing property, expansion of business or payment of overseas school fees. The maximum amount of loans allowed under this loan varies from bank to bank. However, the term of loan is usually 15 years with a varied interest rate.
- Home Completion Mortgage: this is the type of mortgage designed to help individuals who might have started their house with personal income, mortgage loan or bankers to complete their housing projects. The main goal is to bring the project into completion. Again, the maximum amount allowed under this scheme too varies from Bank to Bank
- Home Improvement Mortgage: This type of mortgage targets existing homeowners and companies with properties that need renovation. Thus the main goal of this loan is to assist individuals or companies to undertake extension or renovation on their existing homes. The only difference between home improvement mortgage and home equity mortgage is that, with home improvement, the proceeds should strictly go into the renovation of the existing building.
- Construction Finance/Home Construction: This type of mortgage currently operates in three different forms. These are construction finance to real estate developers, to individual borrowers and also to the customer of real estate

developer. However, the main target group for this loan is real estate developers.

All these are common to the financial institutions and banks that offer mortgage loans in Ghana; Calbank, Fidelity Bank, Ghana Home Loans, Stanbic Bank, HFC Bank.

2.5.2 DEVELOPMENT OF MORTGAGE MARKET AND HOUSING FINANCE IN GHANA

The development of a bubbling and well-organized mortgage market is one key strategy experts often advocates to help in improving housing finance and accessibility in the Ghanaian economy. In the developed countries, the mortgage industry has proved to be the most capable and superior financier of the housing needs of the population. However, Ghana's mortgage market compare to the advanced countries and other developing countries could be seen as still in the rudimentary stage (Bank of Ghana, 2007). Only few Banks, despite the Universal banking policy, offer mortgage loans.

The history of Ghana's mortgage financing could be traced to the immediate post independent era, where Bank for Housing and Construction, Social Security and National Insurance Trust (SSNIT) and State Insurance Company acted as defunct banks to offer mortgage service to the working population. Due to the obvious reason of relative high cost of loan, their mortgage activities were limited to only the middle class hence they had minimal impact on the housing industry.

In Ghana Presently, only few Banks led by HFC and Ghana Home Loans offer mortgages, and their main customers are high net worth income earners. HFC which is the dominant housing finance institution currently in Ghana provides various mortgage products on continuous basis since the formation under PNDC laws as

Mortgage Home Finance Company. HFC under the Urban II project was to institute and manage the financing of housing in the Government's housing sector reform, raise capital and provide loan financial products. The HFC functioned in the secondary market under this project, playing the role of a liquidating agent for the stakeholder's herein financial institutions.

Another mortgage finance company which was recently established is the Ghana Home Loans. It was expected to bring the needed competition and dynamism in the mortgage financing industry; as their activities were envisaged spurring an energetic primary market for housing.

Conversely, due to unappealing rates of commission to firms involved together with tough competition from higher interest rates government bonds in the economy, their objectives could not be achieved. The situation worsened further through the institution of indexed mortgages which was necessitated by worries about the risk and affordability due to fluctuating inflationary risk and exchange rate unpredictability.

Since HFC changed their operations to universal banking (HFC Bank), Mortgage banking has become just a segment of its services, which could be classified as commercial banking, Investment Banking and Mortgage Banking. Currently, the Bank operates mortgage services like home purchasing, uncompleted housing, home improvement, residential property finance and the non-resident Ghanaians scheme. The Bank's mortgage outstanding was reported to be 3,639 borrowers at a cost of \$44.2 million at the end of 2001.

It is also reported that out of the 65% formal sector housing delivery, only 0.8% was received via mortgage (Bank of Ghana Research Department, 2007). In general,

participation in the mortgage financing market has been poor; this could be attributed these three major reasons:

Potential Mortgagors often describe commission fees charged to be high and punitive, despite the fact that beneficiaries bear only 10% default risk.

The second major is the issue of risk and affordability. Thus the introduction of indexed mortgages often deters both existing and potential mortgagees. Another reason is the high prices of houses offered by real estate developers. The expensive nature of houses provided by real estate developers, often quoted in foreign currencies, often deter majority of residents from patronizing in mortgage.

However, notwithstanding the aforementioned developments and challenges, there has been an increase in demand for mortgage loans and facilities over the years which give the future of the mortgage market in the country a better perspective. The ratio of Mortgage Debt Outstanding (MDO) to Gross Domestic Product (GDP) in Ghana grew from 2.5% in 2004 to 3.9 % in 2006, which represents a remarkable improvement in the Market (Bank of Ghana Policy Briefing Paper, 2007).

2.5.3 MAJOR IMPEDIMENTS AND THE PROSPECTS OF MORTGAGE MARKET FINANCING IN GHANA

In Ghana, housing provision has enormously been dominated and prevailed by informal financing over the years. Notwithstanding the numerous efforts made in the past (establishment of the First Ghana Building Society (FGBS), the defunct bank for Housing and Construction (BHC) and the former Social Security Bank) to establish a mortgage industry; macroeconomic instability and the lack of long-term financing prospects have rendered these efforts inconclusive. Thus FGBS and BHC made minimal contribution to the development of mortgage industry in the country.

Also, a vibrant and sustainable mortgage industry is dependent on a solid secondary mortgage market. This simply connects investors, suppliers and buyers in a more cohesive manner. It could therefore be said that, lack of development of such framework in Ghana is a major contributor to the underdeveloped mortgage market in the country.

A key factor influencing the growth of a mortgage industry in Ghana is lack of secure and transparent titled lands, these results in fewer mortgages being granted. The accumulation of land title applications perpetuates multiple sale of land. And since a mortgage market is highly dependent on a genuine land market, an unstable land market system will mean less or mortgages being granted.

It is worth noting that for a strong mortgage market, there is a need for a strong regulatory framework. Outcomes of research in the housing sector of Ghana have proven that many houses and landed properties are not or properly registered. In fact, the condition of properties owned fit the description by De Soto (2002) that many possessions are poorly documented and cannot be readily turned into capital, used as collateral nor traded outside the domestic market thereby disqualifying many potential mortgagors from the market.

For clients who are interested in mortgages, conditions such as high mortgage payment-to-income ratio and prices of mortgages being quoted in foreign currencies has usually become a deterrent especially as borrowers must repay in local currencies which is usually unstable. In the event of high inflation and unstable exchange rates, mortgagors are priced out.

Comparatively, the participation of Ghanaians in the mortgage financing business has been shallow due to high prices of houses offered for sale by the real estate developers, high commissions among others. The onus therefore lies on the mortgage market players to demystify the minds of Ghanaians as to the complexities associated with mortgage financing.

2.6 EMPIRICAL REVIEW

This study will not be complete without the review of the works and study conducted by other researchers in relation to this topic. This section therefore seeks to review existing scholarly and empirical study conducted in the area of housing and mortgage financing development. It comprises of studies and papers conducted in Ghana, Africa and across the rest of the world.

The Research Department of Bank of Ghana (2007) did a study on the housing market in Ghana. The main objective was to investigate the trends of house pricing in Ghana and the effect of mortgage in the provision of housing in Ghana. They used a survey data collected in four regions, namely the Greater Accra, Ashanti, Western and Eastern Region. The principal findings of the study were that: there have been ever increasing rise in house prices and that the price of inputs and land purchase were the main reason behind the constant rise in Ghana; and also the domestic interest rate patterns influences the housing sector trends affect activities of the sector directly since a greater part of housing units are funded partially through loans from domestic banks and financial institutions.

One interesting finding from the study was that, a huge proportion of housing projects initiated by real estate developers were self-financed, as the survey showed that 72.7

per cent of the total finance alternative accessible to the estate developers came from personal funding.

Kofi Karley and Samuel Akomea (2007) in “Overview and prospects of real estate market in Ghana” concluded that Ghana is among the few countries in the region with an emerging real estate market even though it has “opened up considerably in recent years”.

Among the many factors influencing property acquisition in Ghana, Land rites and title registration becomes a pivot in the commencement of the acquisition of finance for property development. This is explored in Domeher (2013), Domeher and Abdulai (2012) and Domeher, Frimpong and Mireku (2014).

Owusu (2010) did a study on “*Urban Growth, Globalization and Access to Housing in Ghana’s Largest Metropolitan Area, Accra*”. The study aimed at examining housing among the poor in Accra within the context of the last three decades of economic liberalization and the resultant consequences of economic globalization. The paper concluded by saying, the problem of inadequate housing is likely to grow worse in Accra especially among its poor residents, unless creative and innovative policies which take into account Accra’s contemporary status as a global city are instituted.

Oduwaye et al (2008) assessed “*the Structure and Challenges of Housing Finance in Lagos, Nigeria*”. The main objective of the study was to investigate the structure and the challenges that confront housing finance efforts of Primary Mortgage Institutions in Lagos. They used two types of questionnaires to collect data from the PMIs and their clients and also secondary data in the area of housing finance policies and regulations. The study identified high cost of building materials and high cost of labor

as well as land documentation constraints and high interest rates as the most severe challenges to housing in Nigeria and therefore recommended that. The government should give incentives like tax rebate, low interest rate, and the creation of special sources of funding for building material producers, in order to encourage local industries to produce building materials.

More (2002) also conducted a study on “*The Role of Mortgage in Housing Finance in Slovenia*”. The study whose main aim was to explore the role mortgage lending play in house finance in Slovenia revealed that, the National Housing Fund (NHF) which is a public agency, dominate majority of the Slovenian housing finance market, due to weak primary and non-existing secondary mortgage market. The study therefore recommended the development of mortgage primary markets and mortgage secondary markets as important tools for the future in improving housing finance and also developing fixed income capital market in Slovenia.

Chambers et al (2008) did a study on “*Mortgage Innovation, Mortgage Choice, and Housing Decisions*”. The main study sought to examine some of the more recent mortgage products on Housing. It was realized that, the introduction of mortgage products had positive correlation with homeownership using housing data from 1995 through 2005. It was also observed that homeownership rate declines as these instruments were removed from the mortgage market.

Promontory Financial Group (2011) did a study on “*The Role of Private Mortgage Insurance in the U.S. Housing Finance System*”. The main objective of the state was to assess the role of Private Mortgage Insurers in the current U.S. housing finance system. The study revealed that the high Loan-to-value mortgage lending is relatively

risky, and by assuming these risks, mortgage insurance enables more lenders and investors to supply capital for these mortgages.

2.7 SUMMARY

It is important to state that housing is very critical element to the survival of humanity and an important tool to the socio-economic development of a country. According to the UN Commissioner for Human Right (2012), housing is no longer seen as privilege but a right.

Available literature confirms that housing deficit is increasingly becoming rampant in Ghana as well as other developing countries in Africa, Asia and South America. Thus demand for housing is increasing at greater pace more than housing Delivery or Supply. It must also be noted that various governments in Ghana have pursue different policies to help improve housing delivery, either through direct participation or indirectly through directives or initiatives. However such policies have either been thwarted or had minimal impact as a result of weak financial system, land related issues and building regulations.

Among the key challenges that affect housing cited were land, infrastructure, building materials, policies, building regulation, finance etc. However, Finance component was cited to be a major constraint to housing delivery because of the huge financial requirement for housing production.

Evidently, mortgage financing has proven to be major financier to housing in the advanced countries. However, mortgage market in Ghana as well as many developing countries could still be considered to be at rudimentary stage.

CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION

The chapter focuses on the methods used to present and analyze the data concerned to this study. The chapter begins by looking at the method applied in data collection and further look at the analysis to find assess the role of mortgage on housing Finance in Ghana. Neuman, (2006) defined research methods as a “*set of specific techniques for selecting cases, measuring and observing aspects of social life, gathering and refining data, analyzing the data and reporting on results*”. Descriptive method is mainly for the data analysis through the use of tables showing relationships.

3.1 RESEARCH DESIGN

Research design could be define as the structuring of investigation with the sole purpose of identifying and establishing relationship among variables; to enable researchers to test hypothesis or answer research questions. In other words, it could be described as a scheme or guide that enables researchers to generate data needed for his study.

In choosing research design, factors like researcher’s level of control on entities or phenomena under study, the purpose of the study, time available for the study and the type of data needed are very key. In consideration with the aforementioned factors, the researcher adopted the case study and qualitative approaches. Case study approach refers to a comprehensive analysis and interpretation of available data or information on real situation of a particular issue, event or occurrence. The use of this approach stem from the fact that, Kumasi is known to serve as a centre town whose inhabitants come from different tribes and regions; and also have individuals with different

income groups. Considering these and the fact that the researcher is more familiar with Kumasi than any other place, Kumasi was deemed most appropriate as the study area.

Qualitative research was also used mainly because it is based on holistic approach to science and is explained in terms of variables and units of analysis. Both explanatory research and descriptive research were used in accomplishing the objectives of the study. The explanatory research was again used to gain insight into the role mortgage play in Housing Finance in the country. Quantitative approach was however used in bringing out households' perception and the challenges in the mortgage market; the research design was thus aimed at discovering the inter-relationship between variables.

Questionnaires were employed as the main tool of gathering information from knowledgeable respondents and also going beyond the observation of the correlation between variables. In some cases interviews based on the questionnaires set was applied.

3.2 POPULATION OF THE STUDY

Ary et al (1972) define Population of a study to be all possible cases (persons, objects, events) that constitute a known whole. The population of this study therefore included all homeowners and tenants in the Kumasi metropolis. According to the 2010 population and housing census, Kumasi metropolis recorded 512,767 housing stocks, hence represent the population of households/homeowners the study.

The next set of population was the banking and non-banking financial institutions that provide mortgage. It was difficult in determining the exact population of this set due to the inception of universal banking which enables each bank to offer different

banking services, therefore there was a challenge in determining which Bank offer mortgage loans.

3.3 SAMPLE SIZE AND SAMPLING TECHNIQUE

Due to time and geographical constraint of reaching all the households in the metropolis, the study adopted a sample of 150 households and 10 mortgage firms to represent the entire population.

The cluster random sampling technique was employed to gather information from the homeowners for the study. By this the entire metropolis were grouped into nine clusters using the nine sub metro demarcation from Kumasi Metropolitan Assembly. This was used in order for the sample to be spread over spatially across different parts of Kumasi, so that the data collected will be a true representation of home owners in Kumasi. After the clustering, systematic random sampling technique was adopted next in selecting the housing units from each sub metro.

Also, purposive sampling was used in the selection of financial institutions that provide mortgage. Boxill et al. (1997) explained convenient sampling as a form of non-probability sampling which draws a sample from the part of the population which is close to hand. That is, a sample population is selected because it is easily available and convenient. However, the adoption of convenient sampling technique here was used in order to choose Financial Institutions which have proven time immemorial to be effective in terms of mortgage lending.

3.4 DATA COLLECTION METHOD

The study used both Primary and secondary data, which eventually served as input for its analysis. Two types of questionnaires were used to collect the primary data, namely questionnaire for homeowners and questionnaires for mortgage firms. The

questionnaires for both units were administered personally by the researcher. An interview technique was also used to collect primary data from the mortgage firms.

Secondary data were collected in the area of housing finance policies and regulations. Also, data were gathered from the mortgage firms in the form of annual financial reports and statements.

3.5 DATA ANALYSIS

The study adopted the use of both descriptive and inferential analysis in drawing inferences, implications and conclusions on the data collected from home owners and the mortgage firms with much emphasis on descriptive analysis.

Descriptive analysis is a scientific method involving the observation and description of behavior of a subject under study without manipulating it in any form (Neuman, 2006). Descriptive analysis gives an exact presentation of the opinion, perception, feelings, emotion and experiences of those affected by a particular situation under discussion. In adopting the descriptive analysis, the researcher employed the use of frequency tables, pie charts and bar charts for the analysis. Crosstabs were applied where applicable in this study to analyze the cause and relationship between variables under study. The main tools of analysis used were the MS Excel and the Statistical Package for the Social Sciences (SPSS). Microsoft Excel tools such as bar charts, pie charts and tables were used in the analyses of the data.

3.6 RELIABILITY AND VALIDITY OF DATA

The validity and reliability of study instrument are the two most important qualities as far as good research is concerned. Therefore, to ensure that the study instrument is valid and reliable the study adopted the following guidelines in its research design:

- The questions were made as simple as possible in order to make it easier for the respondents to understand it properly.
- The questions were minimized as possible so as to get the needed responses without making the respondents get bored.
- The questions were also structured in the way that, they required straight forward answers and were also precise in nature.
- The questions were also framed in such a way that respondents could answer honestly and without bias.
- The questions asked were also those which had direct relation to the information required.

To ensure internal validity of the questionnaires, a pre-test was done. Pretesting of the households' questionnaire was undertaken by selecting 20 respondents. The result was used to review the questions that were not clear. These questions were then modified. In addition to the modification of these questions, there was a need to increase the list of options for some of the questions in the original questionnaire.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 INTRODUCTION

This chapter looks at the actual research findings and discusses in detail the responses from the questionnaires administered. The various responses have been shown in tabular form and also in the form of charts like bar charts and pie charts. The chapter therefore, presents and discusses the data gathered from the field which in turn served as the basic input for the study. The analysed data also serves as input to the conclusions and recommendations of the research.

The chapter also seeks to analyse the role mortgage play in the Ghanaian Housing industry, by establishing relationships between mortgage and Housing Finance in Ghana. This will be done by exploring relationships between some variables by using descriptive statistical analysis like the crosstab as well as ordinal correlation analysis with the help of SPSS. The chapter also analysis the perceptions of people towards mortgage loans in Ghana.

4.1 RESPONSE RATE AND THE CHARACTERISTICS OF THE RESPONDENTS

This section analyses the responses gathered through the questionnaires that were administered to the households. Households in this study represent residents in the houses that were chosen for the study, which includes either house owners or tenants. The section therefore analyses the response rate, characteristics of the respondents and their relationship to the study.

4.1.1 THE RESPONSE RATE

The questionnaires distributed were in two categories, one category for households and the other for the selected mortgage firms. In all 160 questionnaires were distributed for responses; 150 for the households and 10 for the Mortgage Firms. Because the questionnaires were administered personally, all the 160 questionnaires administered were received representing a 100% response rate.

4.1.2 CHARACTERISTICS OF THE RESPONDENTS

This subsection analyses the age characteristics, sex, employment status and educational level of the respondents. The researcher chose these characteristics because, it was realized that each of the characters has an influence on the housing supply and consumption in the country. This will also help the researcher to know the main demanders of mortgage products and help bring recommendation on how to attract other groups. Table 4.1 presents the summary of the characteristics of the respondents.

Table 4.1 Summary of the Characteristics of the Respondents

		Count	Percentage
Sex	Male	114	76%
	Female	36	24.0
Age	18-30	8	5.3
	31-40	25	16.7
	41-50	42	28.0
	51-60	45	30.0
	61 and Above	30	20.0
Employment Status	Employed	104	69.3
	Unemployed	32	21.3
	Retired	14	9.3
Educational Level	None	7	4.7
	Basic	46	30.7
	Secondary	61	40.7
	Tertiary	36	24.0

Source: Field Survey (June, 2014)

Table 4.1 shows that 114 out of the 150, representing 76% of the respondents were male while only 34% were female. This gives an indication that majority of the homeowners studied were men.

The table also shows that 5.3%, 16.7%, 28%, 20% of the respondents were in the age group 18-30, 31-40, 41-50, 61 and above respectively, while 30% were within the age bracket of 51-60. This shows that majority of the respondents fell within the ages of 40 years and above.

Table 4.1 further shows the employment characteristics and educational level of the respondents. It shows that 69.3% and 21.3% of the respondents were employed and unemployed respectively while 9.3% were retired. Also 4.7% and 30.7% had no

level of education and only basic education respectively, while 40.7% and 24% respectively had secondary and tertiary education.

4.1.3 HOUSING INFORMATION

This subsection analyses the housing information gathered through the questionnaires administered. Housing ownership in this section refers to how the respondent acquired the property; it also shows whether the respondent owns the property or resides in as a tenant through rent. Table 4.2 summarizes the responses with regard to housing ownership type.

Table 4.2 Housing ownership type

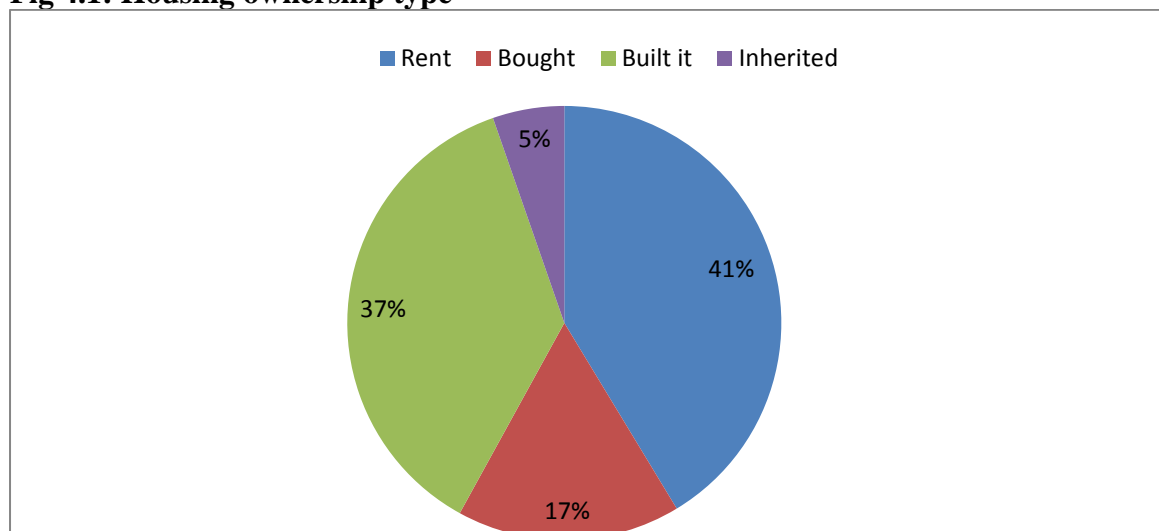
Type of Ownership	Count	Percentage
Rent	62	41%
Bought	25	17%
Built it	55	37%
Inherited	8	5%
Total	150	100%

Source: Field Survey (June, 2014)

Table 4.2 shows that 62 out of the 150 representing 41% of the respondents rented the facility they were residing in while 17% of the respondents bought the facility, while 37% and 5% built and inherited their housing facility respectively.

Figure 4.1 gives a pictorial description of the responses with regard to housing ownership type.

Fig 4.1: Housing ownership type



Source: Field Survey (June 2014)

4.2 PROPORTION OF INDIVIDUALS' INCOME SPENT ON HOUSING FINANCE

One of the major objectives of the study was to examine the proportion of households' income spent on housing. In order to achieve this objective, the households were asked to state the proportion of their disposable income spent averagely in acquiring their housing facility.

Table 4.3 summarizes the responses gathered in relation to households' income spend on their housing facility.

Table 4.3 Proportion of households' income spent on housing

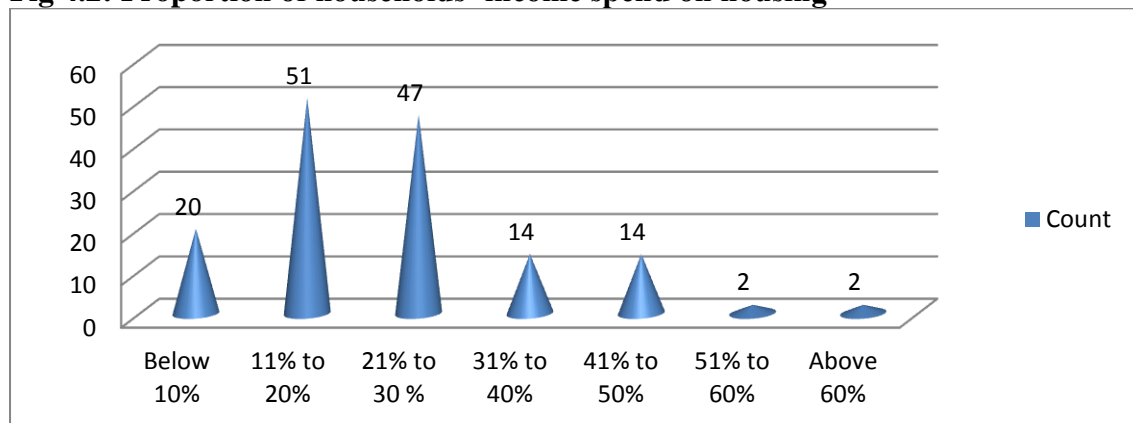
Proportion of Income	Count	Percentage
Below 10%	20	13%
11% to 20%	51	34%
21% to 30 %	47	31%
31% to 40%	14	9%
41% to 50%	14	9%
51% to 60%	2	1%
Above 60%	2	1%
Total	150	100%

Source: Field Survey (June 2014)

Table 4.3 shows that 13% of the respondents indicated to spend below 10% of their monthly disposable income on housing; 34% responded they use 11 to 20 percentage of their income on their housing facility. The table also shows that 9% of the respondents each indicated to have finance their housing with 31 to 40 percent and with 41 to 50 percent of their income, while only 2% of the respondents indicated to have used “51% and above” of their income on housing.

It could therefore be inferred from the responses that majority of the respondents spend between 11% and 30% of their income on housing as a whopping 65% of respondents responded within this range. Figure 4.1 gives a pictorial view of the responses with regard to the proportion of their income spent on housing.

Fig 4.2: Proportion of households’ income spend on housing



Source: Field Survey (June, 2014)

4.3 HOUSEHOLD’S PERCEPTION ON MORTGAGE LOANS

As part of the study’s key objective to examine the perception of demanders for housing units towards mortgage loans; the respondents who were already using mortgage loans were asked about their satisfaction with regard to mortgage loan application processes, repayment methods and whether they recommend mortgage to friends or relatives. Those who had not used the facility before were also asked to

give reasons why they don't intend to apply or have never applied for mortgage loan. This section therefore tries to answer the research question "What are the factors household consider before going in for mortgage loans?"

4.3.1 KNOWLEDGE ABOUT MORTGAGE FIRMS AND PRODUCTS

In order to effectively analyze the households' perception about mortgage loans, it was important to examine whether they had enough knowledge about the existence of mortgage firms and their products. By this, households were asked whether they have heard or have any knowledge about mortgage loans. Table 4.5 summarizes the responses gathered from the respondents.

Table 4.4 Cross Tabulation: Type of Residency and Knowledge about Mortgage Product

		Knowledge about mortgage Products		
		Yes	No	Total
Type of Residency	Own	Count 50 75.76%	Count 39 46.42%	Count 89 59.33%
	Products	% within Knowledge about mortgage	% within Knowledge about mortgage	% within Knowledge about mortgage
		% within Type of Residency	% within Type of Residency	% within Type of Residency
	Rent	Count 16 24.24%	Count 45 53.57%	Count 61 40.67%
	Products	% within Knowledge about mortgage	% within Knowledge about mortgage	% within Knowledge about mortgage
		% within Type of Residency	% within Type of Residency	% within Type of Residency
Total	Count	66 100.0%	84 100.0%	150 100.0%
	Products	% within Knowledge about mortgage	% within Knowledge about mortgage	% within Knowledge about mortgage
		% within Type of Residency	% within Type of Residency	% within Type of Residency

Source: Field Survey (2014)

Table 4.4 shows that 56.18% of the respondents who owned the house they reside in said they had knowledge about mortgage firms and products; while 43.82 said they had no knowledge about mortgage products. The table further shows that 26.23% of the respondents who were tenants responded they had knowledge about mortgage firms and products; while a whopping 83.67% of the respondents said they had no knowledge about mortgage firms and products. It could therefore be inferred from the table that majority of the respondents who owned their housing facilities had knowledge about mortgage products; while majority of those in rented apartment had no knowledge about mortgage firms. In aggregate, majority of the respondents studied had no knowledge about mortgage products as only 44% of the 150 respondents, responded “Yes” to the question “Do you have any knowledge on mortgage loans or product?”

4.3.2 INDIVIDUALS’ PERCEPTION ON ACCESS TO MORTGAGE LOAN

The study also sought to examine the individuals’ perception on access to loan and repayment mode. Individuals who responded they had not use mortgage in their building process were asked whether they ever considered mortgage loan during their house building period; and factors that prevented. The responses gathered are summarized in Table 4.6 below

Table 4.5 Households' consideration for Consideration for mortgage Loans

		Consideration for mortgage		
		Yes	No	Total
High Interest Rate	Count	11	11	22
	% within	47.83%	22.0%	30.13%
No property for colaterization	Count	2	4	6
	% within	8.7%	8.0%	8.22%
High Bureaucracy in Documentation	Count	10	6	16
	% within	43.48%	12.0%	21.92%
No Knowledge about Mortgage Loan	Count	0	29	29
	% within	.0%	58.0%	39.73%
Total	Count	23	50	73
		31.51%	68.49%	100.0%

Source: Field Survey (2014)

From table 4.7, it could be seen that 31.51% of the respondents who constructed or bought their houses without mortgage responded they considered going for mortgage loan at some point, however when they were asked on what prevented them, 47.83% said it was due to high interest rates charged by the mortgage firms, 8.7% said they had no property to serve as collateral for the loan, while 43.48% said it was due to high bureaucracy in documentation. On the other side, 68.49% also responded, they never considered going in for mortgage. 58% of these respondents said, they never considered mortgage loan because they had no knowledge about the mortgage products, 22% said they responded because of high interest rate charged by the mortgage firms; while 12% and 8% responded was due to high bureaucracy in documentation and their inability to provide collaterals respectively as presented by Domeher (2013)

The study therefore reveals that aside the fact that majority of the people have no knowledge about mortgage products, high interest rate and high bureaucracy in documentation are the two major factors individuals perceive to hinder them from patronizing mortgage products.

4.3.3 HOUSEHOLDS' PERCEIVED SATISFACTION ON MORTGAGE LOANS

To get the general perception of housing demanders, it was important for the study to investigate the perception of those who used mortgage products by measuring their satisfaction with regard to accessing mortgage loans and repayment.

Table 4.6 Perception by Individuals who used mortgage loan in their housing Finance

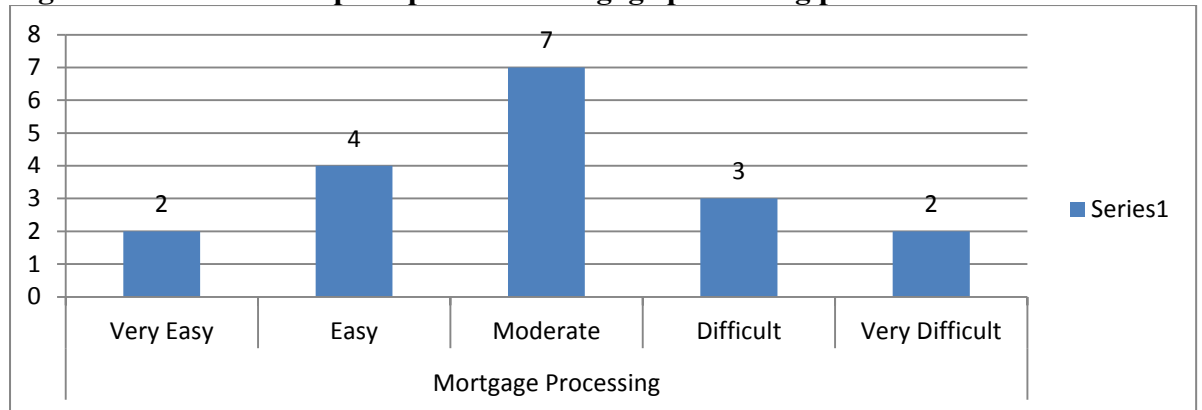
		Count	Percentage
Mortgage Processing	Very Easy	2	11%
	Easy	4	22%
	Moderate	7	39%
	Difficult	3	17%
	Very Difficult	2	11%
	Total	18	100%
Greatest Challenge	High Interest Rate	10	55.56%
	Short Repayment Period	7	38.89%
	Mode of Repayment	1	5.56%
	Total	18	100%
Mortgage Recommendation	Yes	4	22%
	No	13	72%
	Indifferent	1	6%
	Total	18	100%

Source: Field Survey (2014)

Table 4.6 shows the responses by the households with regard to how they describe the processing procedure of the mortgage loan; what they consider to be their greatest challenge during repayment and whether they would recommend mortgage to a friend or relative. The table shows that 39% majority of the responded said the loan processing procedure was moderate, while 11% and 22% responded very Easy and easy respectively; and 17% and 11% responding difficult and very difficult

respectively. Figure 4.3 gives a pictorial view of the responses with regard to mortgage processing procedure.

Figure 4.3 Households' perception on mortgage processing procedure



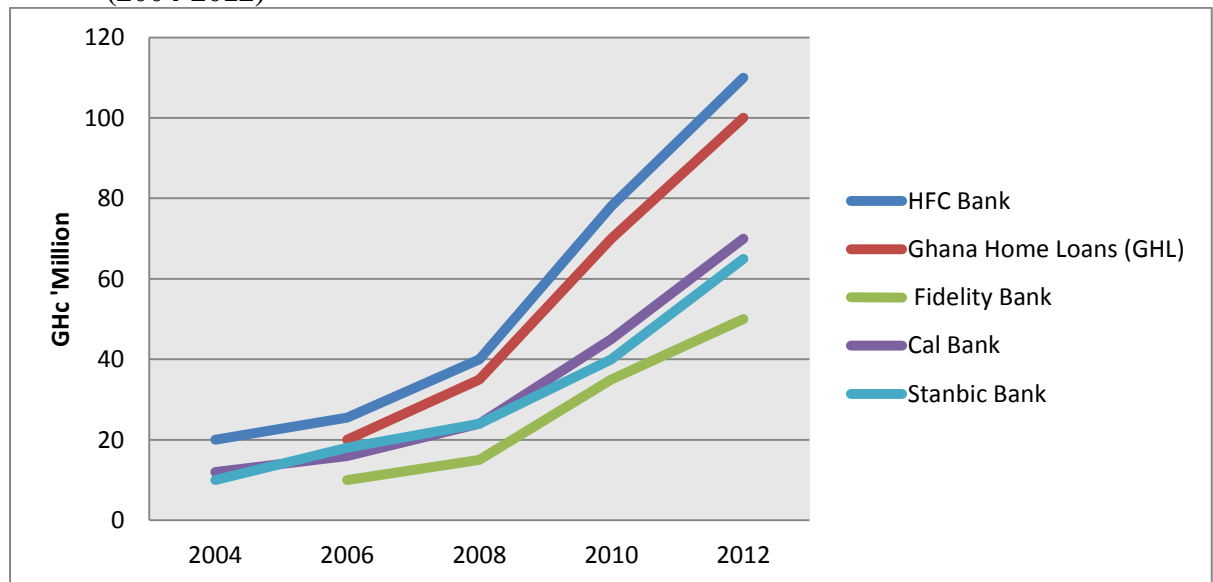
Source: Field Survey (2014)

Table 4.6 further shows that, 55.56% of the respondents said their greatest challenge during repayment was the high interest rate charged by the mortgage firms, while 38.89% said their greatest challenge was the short repayment period given by the mortgage firms; and only 5.56% responded as a result of the repayment mode given by the mortgage firm. Table 4.6 further presents the respondents' perceived satisfaction as regards to whether they will recommend mortgage loans to friends or relatives. Individuals' recommendation of the product to friends or relatives was used to represent his satisfaction level with regard to the product, as they will only recommend the product if they were satisfied with the service and do the contrary if they were not. The figures therefore show that most of the households were not satisfied with the service as 72% said they will not recommend mortgage, with only 22% responding they will recommend and 6% saying they were unconcerned.

4.4 CONTRIBUTION OF MORTGAGE LOANS TO PRIVATE HOUSING FINANCE

One key research question as far as this study was concerned was to analyze the contribution of mortgage to private housing finance. It was first of all important to analyze the trend of annual mortgage loans given by the five main firms in the mortgage firms in the country. Figure 4.3 gives pictorial description on the trend of annual mortgage loans given by the Banks. The figure shows that, the annual mortgage rates for all the firms have shown increasing trend, with HFC Bank and Ghana Home Loans leading, as the major issuers of mortgage

Figure 4.4: The Trend of Annual Mortgage Loans Granted by Mortgage Firms (2004-2012)



Source: Annual Reports of HFC Bank, GHL, Fidelity, Cal Bank, Stanbic Bank (2004-2012)

It was also important to analyze from households perspective whether the increase in volume of annual mortgage have had significant effect on their housing options. Households were therefore asked on how they finance the housing facilities they reside in, the responses are summarized in table 4.8 below. The study therefore

confirms the report that that only a small percentage of household, even in the formal sector, are acquired through mortgage (Bank of Ghana Research Department, 2007).

Table 4.7 Majority of households' fund

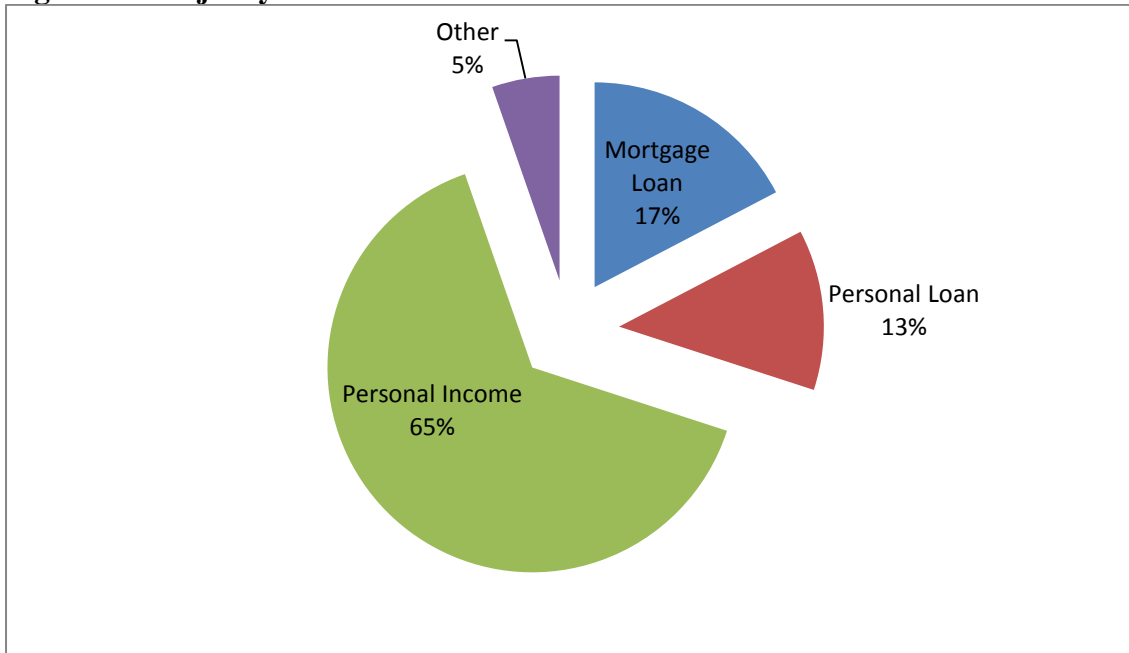
Majority of Fund	Count	Percentage
Mortgage Loan	26	17%
Personal Loan	19	13%
Personal Income	97	65%
Other sources	8	5%
Total	150	100%

Source: Field Survey (2014)

The table shows that 17% of the respondents had majority of their funding from mortgage loan, 13% from personal loan, 65% from personal income and 5% from had their funds from other sources which includes inheriting the facility and funds from family members and friends. The table gives an indication that most of the respondents used personal Income, followed by mortgage loans and personal loans in financing their housing option.

Figure 4.4 gives a pictorial view of where the households studied had majority of their funding from. It could be clearly that personal income was the major source of funding for the households studied, followed by mortgage and personal loans. The study therefore show that mortgage contribution to housing finance in Ghana is minimal in relation to personal income, as majority of the respondents prefer to use their own income in financing their housing options.

Figure 4.5 Majority of household funds



Source: Field Survey (2014)

4.5 OBSTACLES TO THE DEVELOPMENT OF MORTGAGE INDUSTRY IN GHANA

This section analyses the challenges and obstacles the mortgage industry faces. By this responses from both households and mortgage firms with regard to their challenges were analyzed here.

The mortgage firms were asked to rate what they perceive to be the major obstacle to the development of the mortgage market. Table 4.8 and table 4.9 summarize the responses from the mortgage firms as to what they perceive to be major obstacles to mortgage development in relation to mortgage firms and households respectively.

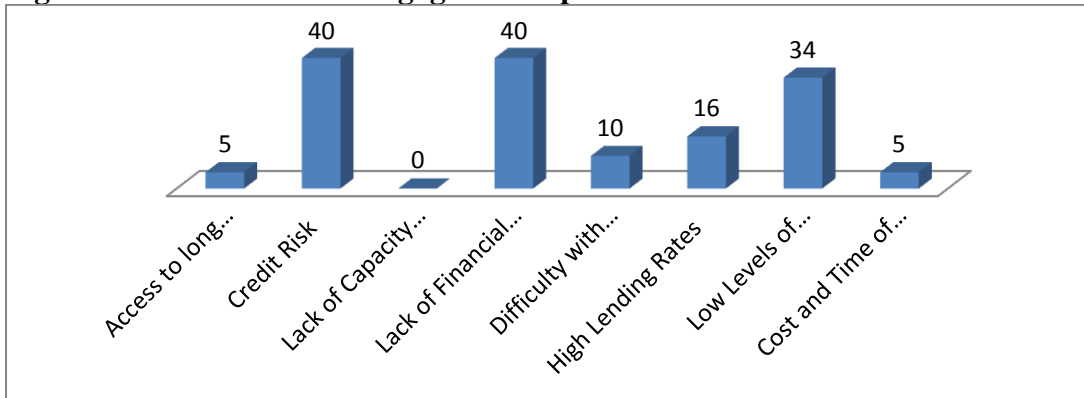
Table 4.8 Summary of the ratings of Challenges related to mortgage firms

	Sum of the Ratings	Percentage (%)
Access to long term funds	5	3.0%
Credit Risk	40	27.0%
Lack of Capacity in Banking Sector	0	.0%
Lack of Financial Literacy of Households	40	27.0%
Difficulty with Property registration	10	7.0%
High Lending Rates	16	11.0%
Low Levels of Incomes or Informalities	34	23.0%
Cost and Time of Foreclosing	5	3.0%
Total	150	100.0%

Source: Field Survey (2014)

Table 4.8 shows the responses given by the mortgage firms with regard to how they rate the major challenges faced by the mortgage firms. The table indicates that majority of the people cited Credit risk, lack of financial literacy of the households, low levels of incomes or informalities to be the greatest challenge to mortgage development in Ghana. The table also shows other factors like difficulty with property registration, access to long term funds as well as cost and time foreclosing as also minor challenges to the development of Mortgage industry. Figure 4.4 gives a pictorial description with regard to how the mortgage firms rate the challenges mortgage industry in Ghana faces.

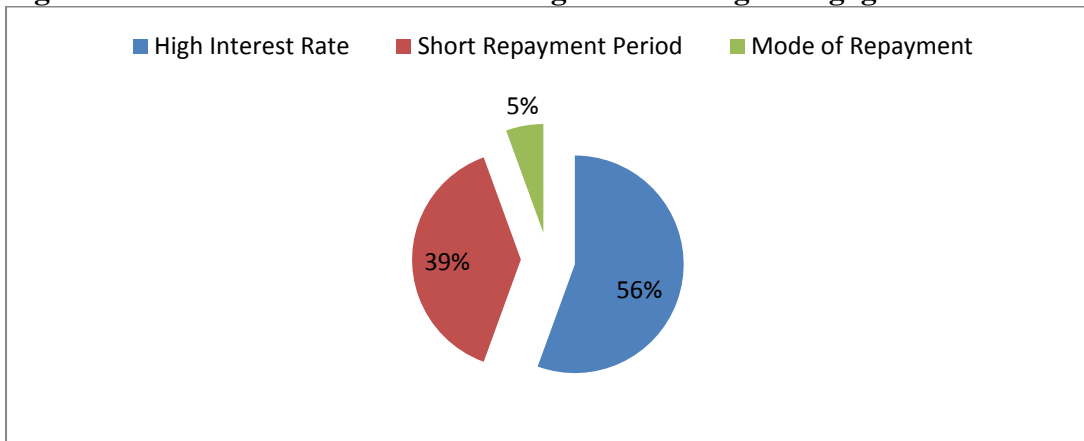
Figure 4.6 Obstacles to Mortgage Development



Source: Field Survey (2014)

It was also important to access the challenges from the households' perspective. This was done by asking the respondents the major challenge they faced in accessing the mortgage loans and repayment period. Figure 4.6 gives pictorial description of the responses with regards to households' challenges.

Figure 4.7 Households Greatest Challenge in accessing Mortgage



Source: Field Survey (2014)

Figure 4.7 gives a clear indication that, households' major challenge in dealing with mortgage banks and accessing the loan is the high interest rate as 56% of the respondents said that is their major challenge, followed by the short repayment period with 39%. It could therefore be deduced that, while high interest rate and repayment period are the major challenges; the mode of payment is not a major challenge as far as the respondents were concerned.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter presents a summary of the research and draws conclusions from the analysis of the responses, drawn from the research questions. The chapter also includes a summary of recommendations proposed to help improve a successful and strong Mortgage industry as well as actionable insight for households in their quest to apply for mortgage to finance their housing projects.

5.1 SUMMARY OF THE FINDINGS

The underlying objective of this study has been to study the role mortgage play in the private housing finance in Ghana. Based on the above goal, it was also important to determine the proportion of households' income spend on housing; also to examine the perception households have towards mortgage loans and products; to measure the impact of mortgage on housing finance in Ghana and also to assess the obstacles in the mortgage industry in Ghana.

Using Kumasi Metropolitan as a case study, Household owners' and tenant within the metropolis were the main respondents as well as banking and non-banking financial institutions that offer mortgage loans. Questionnaires were administered personally by the researcher to the households and the managers of the selected mortgage firms.

The analysis of the actual research findings revealed that most of the households spend between 11% and 30% of their income on housing. It further showed that the proportion of income spend on housing decreases as income increases.

The findings also revealed that, majority of households studied had little or knowledge about mortgage loans and products. It further showed that, majority of those who had knowledge about the existence of mortgage firms and their products perceive their interest rate to be high which ends up preventing them from accessing such loans.

Financial illiteracy, credit risk and low income levels on the part of households were found to be the major obstacles to the development of mortgage industry.

5.1.1 PROPORTION OF HOUSEHOLDS' INCOME SPENT ON HOUSING

In answering one of the key research questions of the study, “What proportion of Households’ income do they spend on housing?” It was discovered that in general high income earners spent less proportion of their income on housing in relation to low income earners in all housing options. However, the actual proportion spend depends on the housing option an individual has, whether he owns or rent the facility.

The study revealed that, majority of the respondents spent between 11% and 30% of their income on housing.

5.1.2 HOUSEHOLDS' PERCEPTION ON MORTGAGE PRODUCTS

The perception of individuals or households concerning mortgage loans was very crucial to the study, in order to effectively analyze the role of mortgage in housing. The study analysed separately the perception of individuals who had used mortgage products before or still using and those who had not used mortgage before.

The study revealed that, majority of the respondents who were in rented apartments had little or no knowledge about mortgage products, as a whopping majority of 83.67% of those in rented apartments showed they are not aware of the existence of

mortgage loans. The study further showed that, 56% of all the respondents had no knowledge about mortgage products. It therefore gives clear indication that knowledge about mortgage firms and their operations are known by only few individuals who have worked constructed their houses and those who have higher level of education and therefore know more about banking activities.

The study also revealed that, majority of the respondents who do not use mortgage in their housing finances perceive the interest rate and bureaucracy in documentation to be very high. These according to them, deter them from engaging in mortgage loans.

The study further showed that, majority of the households who had engaged in mortgage loan cited high interest as their major challenge, while others perceive the repayment period to be shorter. The average interest rate of 30% which they stated according to them was very high, as 55.56% of the respondents who had engaged in mortgage loan stated the interest rate was very high and hence makes repayment very difficult for them. It was further revealed that majority of the respondents, were not satisfied with the service of the mortgage as 72% of the respondents said they will not recommend mortgage loan to friends or relatives.

5.1.3 CONTRIBUTION OF MORTGAGE TO HOUSING FINANCE

In analysing one of the key objectives of the study, the influence of mortgage to housing finance, the study revealed that, the increase in the number of banks that offer mortgage has increased the amount of mortgage loans given out annually. In addition, the study showed an increased trend in terms of mortgage loans offered by the five major players in the Ghanaian mortgage market, namely: HFC Bank, Ghana Home Loans (GHL), Fidelity Bank, Cal Bank (Cal Mortgage) and Stanbic Bank.

On the other side, the study revealed that, despite the strides made by the various mortgage banks and firms, the contribution of mortgage to the housing finance in terms of household usage is still minimal compared to personal income. It was discovered that personal income remains the major source of funding to private housing in Ghana as a whopping majority of 64.7 of the respondents admitted to have used personal income as their major source of funding to their housing facility while only 12% of the respondents used mortgage loan in all housing options.

5.1.4 CHALLENGES TO MORTGAGE INDUSTRY DEVELOPMENT IN GHANA

Assessment of the challenges that mortgage industry faces was very crucial to this study in order to make effective recommendation on how to improve upon the industry. In so doing, the challenges were gathered from both households and the mortgage firms.

The study revealed that, credit risk, lack of financial literacy on the part of the households, high interest rate and low level of incomes or informalities are the greatest challenge to mortgage development in Ghana. Other factors like difficulty with property registration, access to long term funds as well as cost and time foreclosing were also noted to be minor challenges to the development of the Mortgage industry.

The mortgage firms revealed that, due to the fact that our credit referencing agencies have not developed much, it makes it difficult to assess the credit history and credit worthiness of majority of those who apply for mortgage loans as well as other loan facilities.

They also explained the low income nature of their clients makes it difficult for them to convince them to come in for mortgage loans, since such already spend huge proportion of their income on rents and other necessities.

5.2 CONCLUSION

The main focus of this study was to assess the role mortgage play in financing private housing in Kumasi Metropolis, and make practical recommendations to improve the mortgage industry as well as housing finance in Ghana.

The study came at a time where housing demand is increasingly outweighing supply. As existing literature indicates, majority of housing provision in the county is done privately. Moreover, finance remains a major challenge in the provision of these houses. The study therefore sought to find out how the mortgage industry in the country has developed in order to help compliment the normal key financing option of personal income.

The study showed that majority of households had little or no knowledge about mortgage loans and products. This means that despite the strides banks and mortgage firms are making to make mortgage loans easily accessible, majority of households were not aware of these products. The households also perceive high interest rate and high bureaucracy in documentation make mortgage loans less lucrative to go in for as an option for housing finance.

In conclusion the study revealed that, despite the strides made by various stakeholders to make mortgage loans to play a key role in housing finance in Ghana, its contribution is still minimal as personal income continues to be the dominant source of funding to housing projects.

Majority of the mortgage firms studied however believe, the underdevelopment of the mortgage industry is due to credit risk, lack of financial literacy and low income levels of the households to be the major obstacles to the development of the mortgage industry.

5.4 RECOMMENDATIONS

In view of the findings made and conclusions drawn from the study the following recommendations are provided by the researcher to help enhance an accelerated and sustained mortgage industry and also provide recommendations to help in the improvement of Housing Finance options.

The mortgage departments of the Housing Finance Banks should adopt more strategies to make their products more known to the market. This could be done by training in more officers to reach out to the general public, through flyers and personally explaining to potential clients to get to know the benefits and opportunities they stand to gain by adopting mortgage loans as a strategy to finance their housing projects. This could also be achieved by investing in advertisement that will be able to speak about what the product brings about. The researcher believes this will go a long way to educate and entice more people to mortgage products.

The Mortgage Firms also need to adopt more friendly policies with regard to the treatment of clients who fail to service their mortgage loan. The researcher believes that manhandling of customers who fail to settle their mortgage loans sends bad image about mortgage companies and loan, thereby sending a negative corporate image to the public. Furthermore, recommendation of existing customers serve as a major form of advertisement that attract new customers, hence treatments of that negatively affects their perception needs to be minimized.

The researcher also recommends that, mortgage firms take constant feedbacks from their clients through surveys to get their views, this will in turn help give the Banks adequate knowledge of clients' views on their mortgage transactions, thereby helping to address their grievances in time. This will go a long way to help in retaining clients and also help attract other clients.

With regard to the high interest rate, the researcher also recommends a joint talk by the government and the central bank together with the mortgage banks to lower the interest rate, so as to reduce the burden that clients complain follows going in for mortgage loans. This in turn will bring in more clients on board as majority of people hindered by the interest rate. This could be achieved by lowering the prime rate on the part of the central Bank and also strengthening the Credit Referencing Bureaus in the country so as to reduce credit risk.

It is also recommended that, the Banks adopt more innovative ways in terms of the interest rate charges. This could be in the form of segmenting the market in terms of earning capacity and introduce the graduated payment mortgage, where the interest rate is gradually increased with the level of income for a defined period. This will increase the number of borrowers especially from the untapped market and effectively control the number of defaults especially for the business community whose incomes usually fluctuate.

In addition, a joint initiative by the government, the mortgage firms and other stakeholders to support nationwide campaign and education on mortgage products so as to erase the negative perceptions retain by the general public.

Finally, Banks that offer mortgage loans are encouraged to adopt a more proactive approach to enhance the performance of the servicing function and reduce the

bureaucracies in processing and documentation period. This could be achieved by making the mortgage department as another distinct department in the Bank, under a specialized manager with a well remunerated workforce and measurable performance options.

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APPENDICES

Appendix I: QUESTIONNAIRE FOR HOUSEHOLDS

ASSESSING THE ROLE OF MORTGAGE ON PRIVATE HOUSING FINANCE IN GHANA (A CASE STUDY OF KUMASI METROPOLIS)

This study is being conducted in partial fulfillment of the requirements for the award of a Master of Business Administration. All information received would be used solely for academic purposes and treated with strict confidentiality.

SECTION A: BASIC INFORMATION

1. Sex: Male Female
2. Age: 18-30 31-40 41-50 51-60 Above 60
3. Marital Status: Single Married Divorced Separated
4. Educational level: None Basic or J.H.S Secondary Sch. Tertiary
5. Location (Sub-Metro):.....

SECTION B: OCCUPATIONAL INFORMATION

6. Employment Status: Employed Unemployed Retired
7. If Employed, Type of Employment: Self Employed Permanent Employee
Non-Contract Employee Temporal employee
8. Sector of Employment: Trade Manufacturing/Construction
Services Agriculture
9. Length of Employment: Less than 5 years 6 to 10 years 11-20 years
21 to 30 years Above 30 years
10. (Disposable) Income Level: Less than GHC 500 GHC 501 to GHC 1000

GHC 1001 to GHC 1500[] GHC 1501 to GHC 2000[] Above GHC 2000 []

SECTION C: HOUSING DETAILS

11. How long have you stayed in your house?

Less than 1 year [] 1 year to 5 years [] 5 years to 10 years [] Above 10 years []

12. Type of Home ownership: a. Own [] b. Rent [] c. Rent but own under construction[]

If you answered “a” or “c” in question 11 above, please answer questions 12-13 below else go to question

12. How do you claim ownership of the house?

I bought it [] I built it [] Mortgaged from Estate Developer [] I inherited it []

13. If you bought or built it, where did majority of the funds you used in financing come from? Mortgage Loan [] - Using the house as a collateral for the loan

Personal Loan [] - General loan from a financial institution.

Personal Income [] - From personal savings, remittances, salary

If you answered Mortgage Loan in Q13; Please answer questions 14-24 under Section D (Otherwise skip to Section Cii)

SECTION D

14. How did you hear about the mortgage product?

Advertisement in a media [] Official at my Bank [] Flyer or Brochure []
Friend/Relative [] Other (Please Specify).....

15. Which type of mortgage loan did you use?

Home purchase Mortgage [] Home Equity Mortgage [] Home completion mortgage []
Home improvement Mortgage [] Construction Finance []

16. What property did you use as security to the mortgage?

House [] Land [] Truck [] other [] Specify, if other.....

17. How long did it take to access the Mortgage from your Bank?

Less than 2 weeks [] 2-3 weeks [] 3-4 weeks [] More than a Month []

18. How would you describe the criteria for accessing mortgage from your Bank?

Very Cumbersome [] Cumbersome [] Normal [] Easy [] Very Easy []

19. How was the spread of the interest rate? Fixed Interest Rate [] Adjustable Interest Rate []

20. What was the average rate of interest?

Below 10% [] 10% to 20% [] 21% to 30% [] 31% to 40% [] 41% to 50% []
51% to 60% [] Above 60% []

21. In your own opinion, how would you describe the interest rate during repayment?

Very Low [] low [] Indifferent [] high [] very high []

22. What do you consider to be the greatest challenge to you in your repayment process?

High interest rate [] Short repayment time [] Repayment Method [] Other []

Specify, if other.....

23. Would you recommend mortgage loan to a friend or relative? Yes [] No []

24. Do you intend building/purchasing a new house in the next five years? Yes []

No []

If "Yes", how do you intend to finance it? Mortgage Loan [] Informal Loan []

Personal Cash/Savings []

SECTION E

If you used Personal Income:

25. In your own estimation what fraction of your monthly salary/income went into the construction of the house?

Less than 10% [] 10% to 20% [] 21% to 30% [] 31% to 40% [] 41% to 50% []
51% to 60% [] 61% to 70% [] Above 70% []

26. Do you Save with any Bank? Yes [] No []

27. Does your Bank provide Mortgage Loans? Yes [] No [] Can't
Determine []

28. Have you ever considered going in for Mortgage? Yes [] No []

29. If Yes, What prevented you from going in for it?

High Interest Rate [] No Property for securitization [] High bureaucracy in
Documentation [] other []

Specify if other.....

30. If No, Why? No knowledge about it [] High Interest Rate []

No Property for securitization [] High bureaucracy in Documentation [] Other
[] Specify, if other.....

SECTION E

If you answered personal loan please answer from Q31 to Q

31. How did you hear about the loan product?

Advertisement in a media [] Official at the financial institution []

Flyer or Brochure [] Friend/Relative [] Other (Please Specify).....

32. Did you need a property to secure the loan or serve as collateral? Yes [] No []

33. if yes, what property did you use as security to the mortgage?

House [] Land [] Truck [] other [] Specify, if other.....

34. How long did it take to access the loan from your Bank?

Less than 2 weeks [] 2-3 weeks [] 3-4 weeks [] More than a Month []

35. How would you describe the criteria for accessing loan from your Bank?

Very Cumbersome [] Cumbersome [] Normal [] Easy [] Very Easy []

36. How was the spread of the interest rate? Fixed Interest Rate Adjustable Interest Rate

37. What was the average rate of interest?

Below 10% 10% to 20% 21% to 30% 31% to 40% 41% to 50%
51% to 60% Above 60%

38. In your own opinion, how would you describe the interest rate during repayment?

Very Low low Indifferent high very high

39. What do you consider to be the greatest challenge to you in your repayment process?

High interest rate Short repayment time Repayment Method
Other Specify, if other.....

40. Would you recommend a loan to a friend or relative? Yes No

41. Do you intend building/purchasing a new house in the next five years? Yes
No

If "Yes", how do you intend to finance it? Mortgage Loan Informal Loan
Personal Cash/Savings

SECTION F

If you answered "Rent" or "rent but own under construction" in question 11, please answer the following questions.

42. Where do the majority of the funds you use to finance your rent come from?

Formal Loan Informal Loan Personal Income

43. In your own estimation, indicate the proportion of your disposable income spend on rent.

Less than 10% 10% to 20% 21% to 30% 31% to 40%
41% to 50% 51% to 60% 61% to 70% Above 70%

44. Do you save/work with any Bank or Mortgage Firm? Yes No
45. Have you ever applied for a credit facility towards your rent? Yes No
46. Do you intend or have started building your own house? Yes No
47. If 'Yes' how do you intend to finance it? Informal Loan Mortgage Loan
Personal Cash/Savings

**Appendix II: QUESTIONNAIRE TO THE MANAGERS OF
BANK/MORTGAGE FIRM**

**ASSESSING THE ROLE OF MORTGAGE ON PRIVATE HOUSING
FINANCE IN GHANA (A CASE STUDY OF KUMASI METROPOLIS)**

This study is being conducted in partial fulfillment of the requirements for the award of a Master of Business Administration. All information received would be used solely for academic purposes and treated with strict confidentiality.

1. What type of financial institution is your organization?

Private commercial bank

Publicly owned commercial bank

Private non-bank financial institution

Publicly owned non-bank financial

institution Other (specify)

2. Are you permitted by law to accept savings and other deposits from members of the public? Yes No

3. What do you consider to be a major obstacle in the Mortgage Finance Market in Ghana? (Please answer, based on your knowledge, even if your organization is not active in this market)

7. Please describe what you view as the main obstacles to developing the mortgage market further. A table of obstacles is provided below – Please rank the top 5 obstacles to developing the mortgage market to be ranked in order (with 1 being biggest obstacle). Please add other obstacles which do not appear on the list if needed.

	Ranking
Access to long term funds	
Credit risk (lack of credit histories of potential borrowers)	
Lack of capacity/skills in banking sector to develop products	
Burden of regulation (provisioning for bad debts, capital adequacy requirements)	
Donor grants	
Lack of understanding of mortgage product by consumer (lack of financial literacy)	
Difficulties with property registration/titling	
High lending interest Rates	
Low level of incomes/informality	
Lack of housing supply - new construction	
Cost and time of foreclosing on a property	
Other (please specify)	

9. Do you have any specific Best Practice in your operations that you may wish to share with others? Yes No

If the answer is YES, please describe this best practice below.

.....

10. LASTLY: If you could recommend one policy change that would fundamentally alter the environment in which you worked, either from the central Bank or the government what would it be?

.....