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UNDERSTANDING HOUSING SITUATION OF LOW-INCOME GROUPS IN NIGERIA AND THEIR PERCEPTION TO MORTGAGE FINANCING

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Abstract
This work shows the housing situation of low-income groups and their perception towards mortgage financing in Nigeria as it aims to improve homeownership. Qualitative technique is used for primary data collection and analysis while existing literature are also reviewed. The study interviews 46 low-income respondents about current housing situation and perception to mortgage finance and it shows that low-income groups continue to live in poor housing some living up to 30 years in the same building, stagnating social mobility. Office workers are slightly more aware of mortgage institutions and what they do as oppose to artisans and traders. Limited resources increase cognitive burdens that limits the group's ability to invest in personal homes as they are only concerned with meeting the very basic needs of life. The study reveals a prevailing perception that housing programmes are only for the rich which limit the group's interests in government programmes. The study calls for the revival of the economy to reduce the economic pressures faced by low-income groups so as to overcome cognitive burden and the negative perceptions of government programmes. Mortgage institutions should pursue aggressive grassroots awareness about the benefits of mortgage. Finally, governments should construct low-cost housing and directly allocate them to low-income groups with flexible payment processes to reduce the perceived challenges associated with seeking loans from mortgage institutions.

Keyword: Housing, housing finance, low-income groups.

Introduction

Nigerians continue to face challenges in accessing affordable housing especially for low income groups. This according to Okorafor (2025) stems from rapid urbanization and population growth outpacing supply. Low income groups have less access to government programmes such as housing and housing loans from mortgage institutions often relying on informal financing that are unsustainable (World Bank, 2023), forcing them to continue living in dilapidated buildings that impact negatively on their standard of living. This often result in low upward social mobility as they continue to be at the mercy of unscrupulous landlords.

Challenges faced by low income groups in accessing finance include high interest rates, inadequate or a lack of collateral and limited access to formal credit institutions which exacerbate housing deficit contributing to proliferation of slums and informal settlements in cities (Olanrewaju & Fagbenle, 2022). As long as the formal mortgage market continue to be underdeveloped also be the situation of having limited products geared towards providing credit access to low income groups. This study examine low income earners and the housing financing situation in Nigeria using two neighbourhoods in Owerri North L.G.A of Imo state.

The study is significant because it reveals the housing situation of low income groups and challenges in accessing government programmes using mortgage finance as central theme. The study

will help policy makers and formal housing finance institutions articulate better policies that integrate the needs of low income earners in becoming home owners at lower costs.

Conceptual Understandings for the Study

Housing

Literally speaking, housing deals with a house and all its accompanying features that can turn a physical structure to one that makes for comfortable living. The UN-Habitat (2020) defines housing as the physical structure or building that provide shelter or a place of residence for individuals and families. It is more than the physical structure dealing with mental and social representation of the intention of occupants that gives comfort and happiness to occupants. Thus in emphasizing its importance, the UN Charter proposes that housing is not just accommodation but should be treated as a basic right for all human. That is adequate housing means having secure tenure and people living in places that is in line with their culture with basic services for a dignified life (UN-Habitat, 2025). For national development, housing is a fundamental need playing critical roles in the social and economic development of people and communities while also driving development (UN-Habitat, 2020).

Housing finance

This is said to be all the financial systems and instruments that are intended to facilitate the purchase, construction and development of housing units that are available to all categories of people in a region or country (Nubi, 2020). However it is important to note that these systems and instruments are more advanced and efficient in some countries than in others especially developed ones. Nubi's 2020 study asserts that proper housing finance is critical if housing deficit is to be overcome and affordable housing for all manner of citizens in need of qualitative housing is met. The study has observed that in Nigeria housing finance is usually undertaken by the following;

-Mortgages: Loans provided by financial institutions for the purchase, construction and remodeling of houses.

- Housing loans: These are loans provided by institutions to developers to finance housing projects.

-Subsidies: Government provided financial assistance to individuals or developers to make housing more affordable.

- Personal savings/Family assistance: Funds saved over time to construct a housing unit.

It is important to note that housing finance serves as the key link to potentially transforming housing policies and social urban investments into streams of properties that benefits citizens.

Low-income groups

In Nigerian context this represents individuals or households within earnings below a certain threshold typically defined by government agencies or international organizations (National Bureau of Statics, 2022). The three income groups recognized mostly for economic and financial analysis are low income, middle income and high income groups. Low income groups often face financial constraints with limited access to resources and reduced economic opportunities (World Bank, 2021), making it difficult to afford basic necessities as it is estimated that they earn approximately between fifty to ninety thousand naira monthly.

Overview of Housing Finance in Nigeria

In most urban areas of Nigeria population increase causes land to be expensive especially for low income groups discouraging housing development. Cities like Lagos, Abuja, Port Harcourt and Owerri have prohibitive land prices which low income groups cannot afford. However Nubi (2020) explains that unavailability of land for most Nigerians is also attributed to the Land Use Act that create bureaucratic bottlenecks and expensive processing fees charged by various government agencies in charge of development. This create situations where low income groups are forced to live in substandard buildings and still pay high rents relative to their income.

Finance is also a hindrance as Ojo & Adebayo (2022) reveals that there is limited accessibility for mortgage financing as only 5% of households have access to formal housing loans. This drives many to seek housing finance from unstable sources. Mobilizing capital for housing projects and infrastructure is difficult due to foreign and local debts as African countries owe about $685.5 billion in external debt as at 2023, with 20 low-income countries regarded as being in debt distress or at risk of debt distress (World Population Review, 2025). This has led to low and inadequate investment in housing development increasing housing ownership gap year on. Table 1 shows a projection in annual supply gap of housing in 2020 and 2025.

Table 1: Breakdown of annual supply gap of housing in 2020 and 2025.

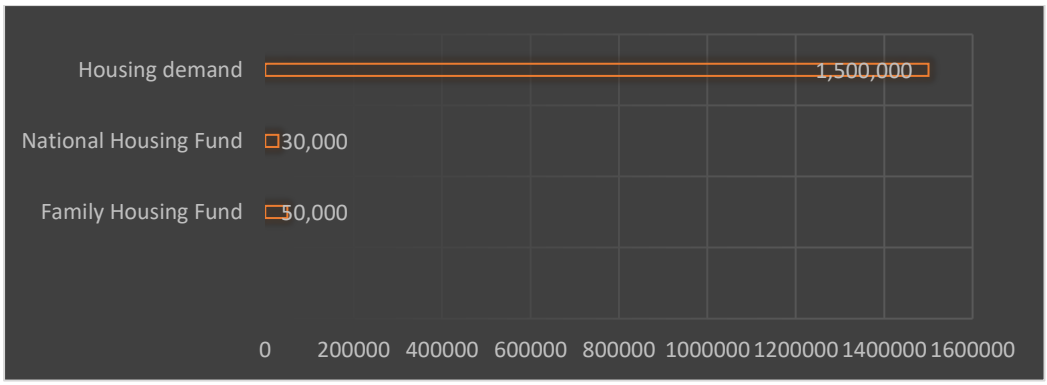
Year	Demand units	Supply units	Deficit units
2020	1,200,000	100,000	1,100,000
2025	1,500,000	120,000	1,380,000

Note: Projections based on Federal Mortgage Bank of Nigeria (2024) and Family Homes Funds (2024)

Government initiatives such as National Housing Fund (NHF) and the Federal Mortgage Bank of Nigeria (FMBN) aims to provide affordable finance for various categories of would-be home owners. However they fall short of the needs especially of low income groups in financing construction of homes. This has led to many criticizing these Programmes' bureaucratic inefficiencies as well as low participation rates as low participation rates reduces the effectiveness of government programmes. The Family Homes Fund (FHF) scheme showed some promise but lacks scalability according to Eze et al. (2024). Lacking scalability means it is difficult for the FHF to handle increased demand from applicants without compromising its performance and efficiency as it is unable to adapt to meet growing demands. As at 2025 the FHF has been able to finance some 50,000 housing units since 2020 which just covers less than 5% annual demand while NHF financed some 30,000 while demand for that period is estimated at 1.5 million units. Figure 1 shows government funded housing units as opposed to actual housing need from 2020 to 2025.

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Figure 1: Government funded housing units from 2020 to 2025 by FHF and NHF versus housing demand.

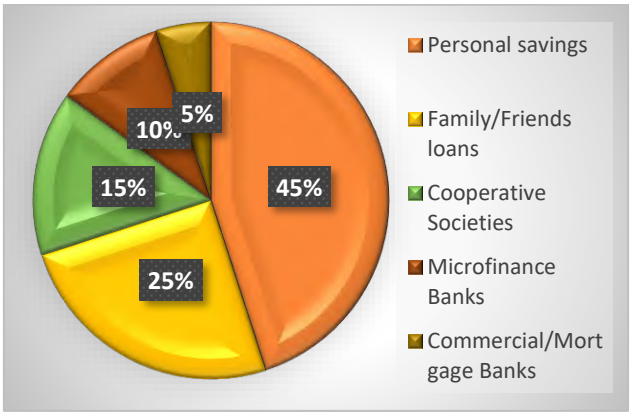


Note: Data projections from National Housing Fund and Family Homes Fund (2024).

The insufficiency of formal mortgage in Nigeria makes it difficult to meet the needs of many low-income groups, accounting for about 5% of household loans (Ojo & Adebayo, 2022). The high interest rates averaging 15-18% as well as the stringent collateral requirements is a barrier for low and middle income clients (Ibem & Amole, 2023). This point is reinforced by World Bank (2023) that put interest rate at about 22% stressing that it is among the highest in the world compared to advanced countries which is between 3-6%. Even though the Federal Mortgage Bank of Nigeria offers low interest loans through the National Housing Fund (NHF) its effectiveness is limited because the Fund is bedeviled with bureaucratic delays and insufficient funding (FMBN, 2024). This coupled with low banking and loan culture of the people affects the overall contribution of the Fund.

Many formal financial institutions view low income people as risky customers leading to exclusion from their services even though they are the lowest that patronize formal financial institutions especially when it comes to home ownership. This has led to many low income groups giving up on the dream of owning a house since their income can barely meet their basic need. For those persistent, they often rely on informal sources such as personal savings, family help and the occasional cooperative savings groups or societies whose services are often insufficient to carryout housing development (World Bank, 2023). Figure 2 shows an adaptation of the sources of housing finance in Nigeria.

Figure 2: Sources of housing finance in Nigeria.



Note: Data adapted from World Bank (2023) and Olanrewaju and Fagbenle (2022).

Most low income groups prefer to use housing finance that are unsustainable with all its setbacks as opposed to formal institutions due to ignorance and negative perception. Though formal institutions have constraints that include high interest rates, lack of collateral as well as limited access to credit and according to Olanrewaju & Fagbenle (2022) has led to the exacerbation of housing deficit and proliferation of informal settlements in cities of Nigeria but are regulated. According to Amao et al. (2021) other challenges such weak financial infrastructure, poor savings and credit culture among citizens as well as the regulatory bottlenecks in Nigeria limit access to credit for housing development. Okorafor (2025) argue that lack of awareness and financial literacy among low income groups as some are in part-time employment making them ineligible for loans from formal financial institutions. Table 2 shows the cumulative percentages on barriers attributed to accessing formal housing finance loans by Okorafor (2025).

Table 2: Barriers to accessing formal housing finance loans.

Barriers	Percentage (%)
High interest rates	70
Lack of collateral	65
Low income/unstable jobs	60
Lack of financial literacy	50
Complex application process	40

Source: Okorafor (2025)

As observed barriers of accessing housing loans from formal financial institutions makes it difficult to achieve the goals of reducing housing deficit in Nigeria. This is primary the reason why many tend to pivot to other sources of financing housing development. From Figure 2 above personal savings and informal mortgage outlets accounts for 85% of housing development. This carries heavy burdens on citizens as it is unsustainable and why housing deficit is still increasing in Nigeria.

Methodology

Secondary data sources were reviewed from relevant literature while phenomenology accounts for primary data collection and analysis through interview of 46 low income respondents for personal information about current housing situation and perception of mortgage finance. Phenomenology focuses on exploring people's lived experiences and how it shapes their views of the world around them through personal interaction, explaining their reality both as individuals and as a group. The method generates personal and collective perspectives on issues rather than concentrate on the accumulation of surface level data attributed to quantitative methods.

Subjects for interview are tenants randomly selected from apartments from randomly selected buildings in the study area. Any building selected has a measure of deterioration that is subjectively accessed from which an apartment is selected and the household head interviewed. The study area covers Amakohia and Akwakuma both in Owerri North local government area of Imo state which is are mixed density neighbourhoods dominated by mostly aging two storey buildings.

The method is critical in helping to comprehend how personal experiences shapes perception of one's reality as opposed to impersonal quantitative analysis. Respondents for interview must have the following characteristics;

- Must be 55 years or above.
- Should be in low income group with average monthly income of between 75,000-100,000 naira.
- Tenants (living in rented apartments that they pay for either monthly or yearly and not living in a family member's house).
- Must be heads of household either male or female.
- Family must consists of a spouse and with at least two children.
- Currently operating a bank account (Commercial bank).

Discussion of Findings

The study revealed from interactions with target population on the current situation of their housing finding out that their average tenancy in years is twenty eight and half years as they find it difficult transitioning from tenants to homeowners as their ages range from fifty years and above. There is low upward socioeconomic mobility as respondents have lived in the same economic situation for decades and in buildings that are dilapidated with constant rent increases.

Landlords continue to engage in arbitrary rent increases causing difficulty in meting payments. Most the buildings from which respondents were interviewed lack facilities due to poor maintenance yet people continue to live in them as a result of high cost associated with moving to better accommodation. They believe that if they insist on proper maintenance the cost of improvement will be transmitted to them increasing their financial burdens. Also no respondents have built a house in Owerri city but some agree they owned personal houses in villages through personal and family efforts or by inheritance. This study was able to expose a feeling of hopelessness within the group as many believe owning a home at this stage of their lives is impossible and declaring that they still can only through divine intervention.

When the study introduced the concept of mortgage financing in the interaction in helping to become homeowners responses were mixed ranging from awareness of their existence to what they actually do and why groups like theirs with low income should patronize mortgage finance. However they generally viewed mortgages and loans with skepticism. To get better understanding of their reality the study divided their responses into three as regards their knowledge of formal mortgage finance institutions and is given below,

a. First group: Those who do not know anything about mortgage institutions in Nigeria.
b. Second group: Those who have heard of mortgage institutions especially Federal Mortgage Bank of Nigeria but have little or no knowledge of what it entails.
c. Third group: Those who have heard of Federal Mortgage Bank of Nigeria and some other formal mortgage institutions and what they do but skeptically about using them

The occupation of the first group is dominated by those in informal sectors like petty traders and artisans. It is assumed that information flow of most government policies and programmes are often limited to this group due to their work as they interact mainly with customers who are only interested with conducting their business. Also from further discussions they believe that their income is too low for anything apart from the basic necessities of life with the feeling of marginalization as they do not see themselves as people their government are willing to do anything for.

The second is dominated by low level civil servants who are aware of mortgage activities especially about the Federal Mortgage Bank of Nigeria but have little or no knowledge of what the bank does. For this group the Federal Mortgage Bank of Nigeria is the more popular mortgage institution within their radar however knowledge of its working is limited. The feeling among this

group is that they are not comfortable with taking loans but belong to various small financial cooperatives of their peers to help for the rainy day.

The last group are those who know about Federal Mortgage Bank of Nigeria and other mortgage institutions and how they operate and mostly made up both low level civil servants and some who work in private firms that often interact with commercial banks. In this group there are those who are interested in mortgage services and those who have actually gone a step ahead of inquiring how to acquire such loans. However none is currently on loan with any financial institution. The perception is that they will be tied to loan repayment for a long time and will end up not gaining from it. Therefore they are not willing to engage in mortgage loan as the requirements are expensive, confusing and tedious.

The interaction with respondents reveal that their experiences are in line with Mullainathan & Shafir (2013) theory of Scarcity. This theory explains that lack of resources especially money creates a cognitive burden that forces people to focus only in trying to get food, meet rent payments, school fees as well as other basic needs with little or no interest in building homes. That is scarcity amplifies cognitive bias as respondents do not wish to put additional burdens on themselves instead continue to opt for low standard of living to fit their economic status.

The study also apply the Affordability Constraint Hypothesis by Buckley & Kalarickal (2006) to explain the experiences of low income groups in Nigeria. Though mortgage institutions exists, those who might have intension to one day own personal homes do not believe that these institutions are meant for them due to their status in life. The high cost associated with accessing them, rigid collateral requirements and limited long term payback provisions makes it difficult to access loans. This situation is exacerbated by microeconomic instability, weak property rights and underdeveloped capital markets that is believed to restrict access to affordable finance. Therefore low income groups tend to shy away from such instruments due to affordability issues exacerbating their housing situation.

It is important to note that scarcity of resources increases limited affordability as this two theory aptly explains the situation of most low income groups as is revealed from the interaction with respondents. It is therefore imperative that policies that can elevate earning abilities of Nigerians will likely reduce the affordability issues currently faced by many. More well-paying employment opportunities that allows more people to conveniently take care of basic needs can create situations where the excess income left no matter how small will amplify the drive of low income groups to seek for other needs outside traditional needs such as food, rent, school fees, health bills, etc. and focus on more issues such as home ownership.

Finally an important revelation that is noteworthy that generated almost unanimous consensus is when given the options of applying for loans to home construction or allocation of homes already built by either state of federal government for which payments is spread over a generous period of time, the latter was the preferred option. They preferred to bypass the hassles of applying to loans and the vagaries associated with construction to allocation of houses and pay in installments. This is indicative of the dread associated with loans in Nigeria as the low income and vague policies of most banks usually discourage many Nigerians.

Summary

- The study reveals that low-income group live in poorly maintained buildings as they cannot afford better quality buildings while facing arbitrary rent increases.

- Low upward social mobility among low-income groups is worrying as they remain economically stagnant living in dilapidated buildings for many years.
- They generally do not have houses in cities, though some admit to owning houses in their villages through personal and family assistance or by inheritance.
- There is a relationship between one's occupation and their awareness of mortgage financing with artisans and traders being the least aware while civil servants and people who work in office environments have slightly higher awareness.
- The situation affecting low-income groups fits into Mullainathan & Shafir (2013) theory of Scarcity which shows that lack of adequate finance creates cognitive biases as those affected prefer to concentrate on meeting basic needs such food, rents, clothing, school fees, etc., with little interest in investing on home construction as it does not affect their immediate needs.
- The study also articulates that Affordability Constraint Hypothesis by Buckley & Kalarickal (2006) helps explain the life experiences of this group as the perception prevalent is that government programmes such as housing mortgages is not for them therefore no need contemplating engaging mortgage institutions for homeownership.
- However, there is unanimity about owning a home even with the general lack of resources only if governments build and allocate to them with favourable repayment plans for low-income groups.

Recommendations

Several recommendations are highlighted for the study and they include,

- Credible actions should be taken by governments to fix the economy so as to improve the financial situation of Nigerians especially those within low income.
- It is important rent regulation be put in place to curb arbitrary increases by landlords.
- Intensive awareness campaign on the workings of mortgage institutions especially public ones informs the grassroots and low-income groups about the benefits attributed to them.
- Interventions by government to help low-income groups mitigate psychological hindrances to housing loans caused by scarcity to foster equitable access to finance such as loan application simplification and tools geared towards payment reminders should be initiated.
- Public mortgage institutions should be supported to have facilities that can accommodate very low-income groups to encourage them benefit from government housing programmes.
- It is important that governments at all levels intensify development of low-cost housing projects and judicious allocation to low-income groups at considerable low interests and longer repayment periods.

Conclusion

This paper discussed the current difficult housing situation low income groups are forced to live in as well as their perception of mortgage financing. Their situation force to live in poor housing for long periods of time while facing arbitrary rent increases. Their situation slows their social mobility thereby perpetuating poverty. This is really depressing when government has initiated many home financing schemes for their group because they have negative perception regarding government programmes making difficult in achieving sustainable development goals.

The low level participation by low income groups in accessing formal loans should spur an increase in awareness campaigns by mortgage institutions as well as creating incentives that

encourages them participate in home ownership. Also improved economy will reduce the pressure that creates cognitive burdens for this income group allowing them to participate in government programmes. This study however argues that prioritizing governments' direct involvement in building low cost homes and allocating them through efficient processes remains one of the most viable options for most low income families to acquire personal homes. Conclusively if the recommendations of this study is not considered the reality is that low income groups will continue to be socioeconomically stagnant thereby increasing the rate of poverty in Nigeria.

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