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THE IMPACT OF THE SUBPRIME MORTGAGE GLOBAL FINANCIAL CRISIS ON THE LOANS AND PROFITABILITY OF NIGERIAN BANKS

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ABSTRACT
The Sub-prime Global Financial Crisis (SGFC) originated from the United State of America (U S) in the year 2007, but have a far reaching effects on financial sectors the world over. This study which has a longitudinal design was undertaken to assess the impact of SGFC on loans and profitability of selected Nigerian banks. The study sampled 8 banks for duration of 6 years, which were divided in to pre, during and post crisis periods of2 years each. ANOVA was used to analyze the data collected from secondary sources, while scheffe multiple rank test was conducted as a post hoc test. The study found that SGFC has not impacted on the loans and advances of the banks, while it has impacted on the profitability of the banks. The study concludes that the regulatory authorities must have step-up regulation strategies in order to mitigate the contagion impact of the financial crisis in the operating environment of the banks.

Keywords:*financial crisis, loans and advances, economic environment, profitability and revenue-generating assets.*

Introduction

Financial crisis is a shock which occurs in an industry within an economy of a country which usually have far reaching effects on the whole industry or the economy as a whole. It may be endogenous meaning it originates within the economy or exogenous which originates from external influences usually based on the linkage of the economy especially the financial sector of the economy. Minsky (1995) identified financial crisis as financial fragility posited that due to the modern capitalist economies over reliance on debt to finance investment in their economies, has resulted in financial fragility. Eichengreen and Portes (1987) have looked at the causes of financial crisis and conclude that a sharp change in asset prices that lead to distress among traced the root cause of the Sub-prime Global Financial Crisis (SGFC) to bubbles created in the economy of United State of America (US) which sole cause was the high level of speculation in the economic environment. Bubble which refers to a situation in which excessive public expectations of future price increase cause prices to be temporarilyelevated. They define speculative bubbles as been caused by ``precipitating factors`` that change public opinion about markets or that have an immediate impact on demand, and by amplification mechanisms, that take the form of price to price feedback.

Adam (2009)opined that financial crisiscan be broadly applied to a variety of situations in which some financial institutions or assets suddenly lose a large part of their value. Bexley, Bond and Mariam (2012) posited that financial globalization and integration are different concepts. They argued that financial globalization refers to the increaseglobal linkages created through cross border financial flows. Financial integration refers to a country's linkages to international capital markets. They also argued that both open up a country`s economy by increasing capital inflows which have an influence on it vulnerability to financial crisis. The SGFC can be attributed to some factors, the most significant of which were;

I. Low real interest rates in the U S and the extreme confidence about the continued rise in the housing prices and also low volatility in the housing market.
II. A great shift in the mortgage lending towards the less credit worthy sub-prime borrowers who do not qualify for prime mortgage lending.
III. Incentive problems associated with the securitization models for mortgage loans in to mortgage backed securities (Sanusi, 2010).

At the inception of the crisis on the world economic stage, most developing economies in Africa were insulated from the contagion effects of it, which is partly as a result of low integration with the developed economies which were already affected at that time, and also low investment in complex new financialarchitecture, strict local legislation, with low level of economic liberalization in Africa (Adamu, 2009; Sanusi ,2010; Allen, Babus and Carletti, 2009). As the crisis deepen in the developed economies, the contagion effects of thecrisis started manifesting in the developing countries through some channels, such as fall, reduction and divestments of foreign direct investments, fall in the price of oil (petroleum) ,losses sustained by (Nigerian) banks and other financial institutions on assets invested in foreign countries and institutions exposed to the crisis , among others which serve as the link between the local economies and the developed and global economies(Sanusi,2010; Adamu 2009; Sara-ejembe 2009).

The financial sector has always been the gateway to global and international economic integration, and as such has always been heavily regulated in order to protect the economy of a state, be it developed or developing economy despite liberalization. Banks are usually the most regulated within the financial sector of an economy due to a lot of roles banks are expected to play. Some of these regulations are multilayers in nature, like in the U S where there is the federal, state and local regulations or multi agencies like in Nigeria despite liberalization(Bhole 2004; Rose and Hudgins 2008). In spite of these, banks were the most affected by the SGFC leading to collapses of banks in both developed and developing economies (Sanusi, 2010). This study was undertaken to test these hypotheses;

Ho: the subprime mortgage global financial crisis has no impact on the loans and advances of selected Nigerian banks.

Ho: the subprime mortgage global financial crisis has no impact on profitability of selected Nigerian banks

This study only focuses on selected Nigerian banks that are quoted on the Nigerian stock exchange covering the period from 2005 to 2010. Secondary data were sourced from the annual financial statements of selected banks.

Review of Literature

Rose and Hudgins (2008) define a bank in terms of three trajectories, which are; the economic functions they serve the services they offer to their customers and lastly the legal basis for their existence. Banks are always defined in line with these three bases (Cox, 1979; Shekhar and Shekhar, 2005; Bhole, 2006; Ajibola, 2005). Banks are primarily set-up for profit making despite other roles that are impose on them due to the nature of their business operations. The most fundamental of the roles played by banks is the provision of credit facilities to fuel investment in their areas of operations (Rose and Hudgins, 2008; Bhole, 2006; Bobakova, 2010; Ducai, 2010). The performance of banks are hinged on the economic stability in a business environment as it contribute to effective savings which ultimately could lead to sound investment and also a good economic growth in the long run (Bobakova,2010; Rose and Hudgins, 2008; Shekhar and Shekhar 2005).

A lot of studies have looked at the issue of determinants of bank profitability, which could be seen from the internal and external determinants (Staikourras and wood, 1999). Staikouras and Wood (1999) posited that apart from the external determinants, loans through management decision play a significant role in bank profitability.Belaid (2014) also posited that most banks that fail have a high proportion of non-performing loans prior to the failure. Bobakova (2013) argued that the quality of a bank management has an important bearing on a bank ability to work effectively in a competitive environment with the sole aim of making profit. He further stated that the structure of a bank revenue generating assets influences bank profitability. Revenue generating assets are assets operations that bring profit. Belaid (2014) concludes that there is a positive relationship between bank profitability and problem loans, and also agrees that external macro-economic shocks too do have an influence on bank profitability and loans. Ducia (2010) also concludes that the important effect ofSMGFC on companies is the drastic drop in demand for goods and services and a tightening in credit terms which severely affected cash flows.

Methodology

This study is a survey research which has a longitudinal design that covers the period from 2005 to 2010, the duration of the study is divided in to three periods, namely, pre crisis period (2005-2006), during crisis period (2007-2008) and post crisis period (2009-2010). The study used purposive sampling technique based on the availability of yearly financial statements of banks for the period of the study. The amount of loans and advances granted by the banks and also the profit before tax of each of the banks for the duration of the study were extracted from the yearly financial statements. A total of 8 banks were selected namely first bank, united bank for Africa, diamond bank, access bank, skye bank, IBTC chartered bank, GT bankand zenith bank were sampled based on the total number of banks (19) operating in the country (Nigeria). Analysis of variance (ANOVA) was used in testing the hypothesis of the study while Schaffe Multiple Range test was used to test the result of the F test to determine actually where the difference lies in the periods under study. SPSS version 21 was used for the computation and analysis which was carried out at 95% confidence limit.

Results

Based on the analysis carried out, the following were the results of the individual hypothesis of the study.
The table below is for the computed ANOVA result for loans and advances of selected Nigerian banks for the duration of the study, which were pre, during and post crisisperiods.

Table 1: ANOVA result for loans & advances

Loans & Advances	Sum of squares	df	Mean squares	F	Sig.
Between Groups	1.404E + 18	2	7.018E + 17	23.145	.000
Within Groups	1.365E + 18	45	3.032E + 16		
Total	2.768E + 18	47			

The above table indicates that the P value of 0.000 is less than the significant level of α at 0.05,therefore indicating the rejection of the null hypothesis. There was significant difference between the means of the periods under study.

Table 2: Scheffe multiple rank test result for loans & advances

Group	N	Subset for alpha=0.05		
		1	2	3
1.00	16	77664277.69		
2.00	16		249294714.4	
3.00	16			494387911.8
Sig		1.00	1.00	1.00

Means for group in homogenous subsets are displayed.

a. Uses harmonic Mean Sample size = 16.000
   The table above shows that the means of the periods under study are in different subsets which indicate that they are significantly different from each other. The ranking shows that pre crisis period has the lowest mean (7766277.69), this was followed by the crisis period (during) having a mean of 249249714.4, while the post crisis period posted the mean of 494387911.8, which incidentally is the highest mean.

The table below is for the computed ANOVA result for profitability of selected Nigerian banks for the duration of the study, which were pre, during and post crisisperiods.

Table 3: ANOVA result for profitability

Profitability	Sum of squares	df	Mean squares	F	Sig.
Between Groups	4.888E + 16	2	2.444E + 16	1.073	.351
Within Groups	1.025E + 18	45	2.279E + 16		
Total	1.074E + 18	47			

The above table indicates that the P value of 0.351 is greater than the significant level of α at 0.05,therefore indicating the rejection of the null hypothesis while accepting the alternative hypothesis.

Discussion and Conclusion

The result of the analysis has shown that the first hypothesis which measures the impact of the SGFC on the loans and advances is rejected, meaning that the financial crisis has impacted on the loans and advances of the banks. While on the other hand, the second hypothesis which measures how the crisis has impacted on the profitability of banks during the duration of the study indicated the acceptance of the alternative hypothesis since it has a P value of 0.351 which is greater than the α of 0.05.

The first result shows that despite the impact of the crisis, the banks were granting loans and advances to their customers, in order to fuel production of goods and services in the economy. The granting of these loans and advances by the banks account for the bulk of their revenue-generating assets, which ultimately have a direct bearing on the return to their shareholders in terms of maximizing their holdings in the banks.

The second result shows that the crisis has not impacted on the profitability of the banks. This means that the financial has not been able to substantially affect the profits of the banks during the time of the crisis. This can be attributed to the maximization of the returns of other revenue-generating assets of the banks.

The banks too must have put in place measures of cost cutting in anticipation of the challenging economic environment. Credit must be given to the regulatory authorizes who must have step-up regulation strategies in order to mitigate the contagion effects of the crisis in the operating environment of the banks.

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