

Mortgage Banking Sub-Sectors' Approved Uniform Mortgage Underwriting Standards for The Informal Sector of the Economy.

The Informal Sector in Nigeria refers to economic activities in all sectors of the economy that are operated outside the purview of government regulations. This sector may be invisible, irregular, parallel, non-structured, backyard, underground, subterranean, unobserved or residual (Magbagbeola, 1996)¹. This Sector mainly comprises of self-employment activities, which are basically categorized under the micro, small and medium-sized enterprises (MSMEs). Due to the nature of their operations, activities in this Sector are difficult to measure, they are highly dynamic but they contribute substantially to the general growth of the economy and the GDP of the Country.

From the Website of Federal Ministry Budget and National Planning, the Informal Sector is reported to have great potentials as it contributes more than 58% to the Country's economy; and in order for the Mortgage Banking Sub-Sector to harness these potentials, it has become imperative to develop Uniform Mortgage Underwriting Standards for this Sector.

The Uniform Mortgage Underwriting Standards for the Informal Sector are as below:

Mortgage Loan Criteria	
Purpose of Loan	The mortgage loan may be used to finance the purchase or refinance an existing mortgage loan.
Type of Property Eligible	An eligible borrower may use the proceeds of this loan to purchase either, a single-family home or an apartment in a multi-unit building. The property acquired shall be owner occupied.
Eligible Borrowers	Only natural persons are eligible to borrow. Borrowers shall fall into the informal sector of the economy i.e. self-employed professionals, self –employed non-professionals, and Owner/Managers and employees of small and micro-enterprises without formal records. Corporations are not eligible borrowers under this product. Borrower shall be a citizen or legal resident of the Republic of Nigeria, and proof of verification of immigration status shall be required, for non-citizens.
Credit Bureau Report	The Mortgage Lender shall obtain a credit report from two independent credit bureau agencies licensed by CBN showing a credit score that translates to a minimum of satisfactory and above.
Credit Worthiness	Documents that may be used to prove credit worthiness include: i. Twelve months payment receipts and or invoices of at least

¹ Magbagbeola, N. (1996), The role of the informal sector in Nigeria's post-Adjustment Economy, In **Nigerian Economic Society Beyond Adjustment: Management of the Nigerian Economy, Ibadan, Nigerian.**

	<p>three utility bills (rent, utility payments, waste, water, phone e.tc)</p> <p>ii. Letter of reference from his/her suppliers or associates, trade association as applicable.</p> <p>iii. Notarized statement of adequate net worth for the loan program.</p> <p>iv. Evidence and confirmation of satisfactory payment of dues or subscription to approved trade associations or cooperatives as applicable.</p> <p>v. Satisfactory School fees payment record for children/dependents.</p> <p>vi. Any other informal means as acceptable to the Lender to verify or ascertain borrowers' credibility. (<i>***See Guidance Notes</i>)</p>
Limitations on Co-borrowers	<p>A married couple may serve as Joint Borrowers in the transaction. Where a couple is acting as Joint Borrowers, the income and expense obligations of both parties will apply in determining whether the couple qualifies to participate. If a spouse does not serve as a Joint Borrower, that person shall execute a separate agreement waiving any right to block foreclosure in the event the borrower defaults on the transaction participating agreement.</p> <p>Where Borrower has multiple spouses/partners, or in a recognized civil relationship, every spouse or partner RESIDENT in the property, shall execute the said separate agreement waiving any right to block foreclosure in the event the borrower defaults on the transaction participating agreement.</p>
Minimum Loan Amount	Minimum Loan is as determined by the Lending Institution
Maximum Loan Amount	Maximum Loan amount is N50 million
Loan Term/Tenor	The mortgage loan shall have a minimum term to maturity of 5 years and a maximum of 20 years.
Borrowers' Age	<p>Minimum - Age of Legal Contract – 21 years</p> <p>Maximum – 10 years to the legal retirement age or as determined by industry and /or regulatory guidelines.</p>
PENCOM Compliance	As applicable
The Currency in which the loan is Denominated	Funds will be disbursed and payments by the borrower(s) will be made in Naira.
Interest Rate Structure	Interest rates may be fixed or variable.
Minimum Down-payment	The borrower(s) shall provide a down-payment from his or her own funds equal to /no less than the amount specified in the table below for the value of the property, as determined at the time that the mortgage is underwritten. This down payment requirement shall not be fulfilled through a loan from a third party, unless under regulator-approved Special Down Payment Assistance Programs (DPAP). Down payment should be sourced, to ensure legal funds, and

	seasoned in the bank account for at least 30 days.		
	Property Value (N'000)		Down payment
	< Less than 20,000		25%
	20,001 – 40,000		30%
	40,001 – 50,000		35%
Maximum Permissible Housing-Expense and Total-Debt Ratios	<p>A borrower(s)'s monthly housing expense consists of the monthly mortgage payment plus other recurring housing related costs, including real estate taxes and insurance. This is commonly referred as the Payment to Income or PTI ratio. This ratio shall not exceed the percentages presented in the table below of the borrower(s)'s net monthly income at the time that the mortgage is made.</p> <p>A borrower(s)'s debt to income or DTI ratio also includes other payment obligations such as car loans, personal loans, etc. The borrower(s)'s DTI shall not exceed the ratios presented below of the borrower(s)'s net monthly income at the time that the mortgage is made.</p>		
	Recognized Cash Income Band (N'000)	Maximum Housing Expense to Income Ratio	Maximum Debt to Income Ratio
	2,000 and above	35%	50%
	501 – 1,999	25%	40%
	<Less than 500	20%	33.3%
Form of Mortgage Repayment	Payments shall be made by domiciliation of business proceeds to obligors account with Mortgage Lending Bank (MLB) or through the use of direct debit mandate drawn on an account with a minimum of 3 months PTIA in reserves, supported with 3 months of postdated cheques or through the use of BVN which shall also be linked to borrower's other accounts.		
Amortization Structure	Loan repayments are structured such that the loan will be fully repaid by the end of the period for which it is written. In no case may the remaining principal amount that is owed increase during the time that the loan is outstanding. (No Negative Amortization) Default interest can be charged but not added to principal. After default payment, any payment made shall be applied to interest.		
Prepayment of Mortgage Loan	The borrower(s) may repay the remaining unpaid principal balance of the loan at any time that it is outstanding, but the ML may charge a penalty fee. Where an ML's product line includes a penalty fee, the information on all charges shall be made available to the borrower before closing. Such charges should be a nominal fee and not to be designed to achieve yield maintenance.		

Seasoning	All mortgage loans submitted for refinance shall be at least six months aged, with at least six consecutive monthly payments made, from date of origination.
Delinquency	All mortgage loans submitted for refinance shall be current in monthly re-payments and must have had no delinquencies in the last six months.
Origination Fee	As specified by the Mortgage Banker's Tariff
Servicing Fee	The borrower will also pay to ML on an annual basis a fee not exceeding fifty basis points (0.5%) of the outstanding balance of the loan. The fee shall be added to the mortgage interest rate and origination fee and together advertised by the ML as the mortgage loan APR% and paid on a monthly frequency
Late Fees	Payments that are received more than seven (7) days after they are due will be subject to a late charge. All information on late charges shall be made available to the borrower before closing and borrower consent obtained.
Property Valuation	Should be carried out by a licensed, independent Valuer who is a member in good standing with the Nigerian Institution of Estate Surveyors & Valuers (NIESV), and who shall carry Professional Indemnity Insurance with an insurance company that is licensed and in good standing with NAICOM Prequalified independent Valuers shall: (i) adopt international appraisal standards and methods; (ii) meet certain minimum requirements; and (iii) adopt uniform appraisal process/systems The lower of the Purchase Price and Open Market Value / Fair Market Value ("OMV") of the property to be acquired will be used for computation of the Mortgage Loan
Tenure of Property	Full ownership. Leasehold with a minimum of 40 years from the date the loan is originated or legal maximum, if higher.
Property Title	Good legal title free from encumbrance. Acceptable title documents may be determined according to standards for the community in which the property is located. Financier-Participant shall provide liability surety coverage for property where title is not legally fully perfected.
Security Required	First rank legal perfected mortgage over the property for the amount of the mortgage plus interest. This mortgage right shall be assignable to a third party (together with the mortgage loan), and where required by law, with the consent obtained at the signing of the offer letter or the mortgage loan agreement.
Insurance	Property insurance in the name of the borrower to cover the replacement or reinstatement cost of the property. This policy is to be index-based, if available. The borrower shall have life and disability insurance in the joint names of the ML and

	borrower or the Insurance is assigned to the ML for a minimum of the outstanding principal of the mortgage loan. All insurance policies shall note the ML as the first loss payee.
Title Perfection Duration Insurance	Where a fully perfected Title is not readily available, the Secondary Market Refinance Company may accept Title perfection duration Insurance cover from their approved insurance companies. Such Title cover shall however NOT exceed 18 months from closure of the mortgage. In the event it exceeds, the ML will either have to substitute the mortgage loan with an equivalent loan with title or post acceptable collateral
Consumer Protection	Information provided to borrower is in compliance with the relevant consumer protection and disclosure regulations and as prescribed by the Consumer Protection Department of the CBN.
Mortgage Counseling	The ML shall, during mortgage application process, ensure that the borrower is educated and clearly informed as to the responsibilities he is taking on.
Dispute Resolution	Contractual Arbitration or other acceptable Alternative Dispute Resolution process.
Origination Fee	Any applicable origination fee shall always be separated from Principal and Interest and paid out of pocket.

Guidance Notes to the Underwriting Standard

Mortgage Loan Criteria	
Eligible Borrowers	A non-Nigerian resident in the country is eligible to apply if he has a valid visa and has stayed in the country for at least one year and is in compliance with any necessary/relevant Immigrations Regulation. Such borrower shall show proof of immigration approval to stay in the country for a period no

	less than the term of the mortgage repayment period, or three (3) years, whichever the lending institution approves as appropriate for the mortgage program applied for.						
Credit Worthiness	Other informal means for ascertaining credit worthiness may include: i. Independent interviews of family members, neighbors and colleagues in the office/enterprise for background check i.e. KYC ii. Checking on information provided with issuing authorities NOTE: Lender shall obtain borrower's authorization in writing, in order to contact ANY third parties for any information concerning the said borrower.						
Income Assessment	The Borrower shall have been on the trade or business for at least 36 months (continuously in the same industry), supported with operational and/or financial statements of account in respect of his/her business enterprise/activity so as to ascertain net-worth and credit worthiness.						
Recognition of cash income (Where income and expense data are not feasible for calculation of net income)	A Borrower's bank statements are the most trust worthy source to ascertain the borrower's cash flow. As such, the borrower shall provide appropriate and acceptable bank statements for previous 12 months, which shall show regular deposits with the last deposit not more than 30 days old. The credit inflow should be discounted as detailed below: <table border="1" data-bbox="705 1088 1533 1211"> <tr> <td>Trade (FMCG)</td> <td>95%</td> </tr> <tr> <td>Manufacturing</td> <td>85%</td> </tr> <tr> <td>Services</td> <td>80%</td> </tr> </table> <p>The 12 months average discounted credit cash flow would be the recognized cash inflow for a month. The discounted credit inflow represents the profit that can be utilized for repayment after netting cost of sales Where salary is paid, the net income would be used.</p>	Trade (FMCG)	95%	Manufacturing	85%	Services	80%
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Amortization Structure	No Negative Amortization. Default interest can be charged but not added to principal. After default amount is paid, any payment made shall be applied to interest.						
Mortgage Counseling	ML shall organize Home-Buyer Counseling classes to educate borrowers on their rights and obligations of home ownership, and the legal consequences of default. Every borrower shall receive homebuyer counseling prior to closing on their loan, and shall confirm in writing, that such counseling was completed by their financing Lender.						