CENTRAL BANK OF NIGERIA
Financial Policy and Regulation Department
Central Business District
P.M.B. 0187
Garki, Abuja.

Tel: 09-46237401
E-mail:fprd@cbn.gov.ng

FPR/DIR/GEN/CIR/07/041

NOVEMBER 25, 2019

CIRCULAR TO ALL STAKEHOLDERS IN THE MORTGAGE SUB-SECTOR

RE: REGULATION FOR THE OPERATIONS OF MORTGAGE GUARANTEE COMPANIES (MGCs) IN NIGERIA

Further to the Exposure Draft on the "Regulation for the Operations of Mortgage Guarantee Companies (MGCs) in Nigeria" dated October 17, 2018, and the incorporation of comments from various stakeholders, the Central Bank of Nigeria hereby issues the following **"Regulation for the Operations of Mortgage Guarantee Companies (MGCs) in Nigeria"**.

The Guidelines may be accessed at the Bank's website at www.cbn.gov.ng.

Further enquiries on the provision of the circular may be referred to the Director, Other Financial Institutions Supervision Department, Central Bank of Nigeria, Abuja.

CHIBUZO A. EFOBI
For: DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT

CENTRAL BANK OF NIGERIA

REGULATORY AND SUPERVISORY GUIDELINES FOR THE OPERATIONS

OF

MORTGAGE GUARANTEE COMPANIES (MGC)

NOVEMBER 2019

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LIST OF ACRONYMS

AIP	Approval-in-Principle
AML/CFT	Anti-Money Laundering/Combatting the Financing of Terrorism
BOFIA	Banks and Other Financial Institutions Act
CAC	Corporate Affairs Commission
CAMA	Companies and Allied Matters Act
CBN	Central Bank of Nigeria
CIBN	Chartered Institute of Bankers of Nigeria
DMB	Deposit Money Bank
FGN	Federal Government of Nigeria

FPRD	Financial Policy & Regulations Department
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Principles
IFRS	International Financial Reporting Standards
MBAN	Mortgage Bankers Association of Nigeria
MIS	Management Information System
NIBSS	Nigeria Inter-Bank Settlement System Plc
OFISD	Other Financial Institutions Supervision Department
REITs	Real Estate Investment Trusts
SEC	Securities and Exchange Commission

1.0 INTRODUCTION

The Central Bank of Nigeria (CBN) has introduced several reforms and institutions to enable mortgage lenders to achieve the mandate of creating mortgages to improve homeownership in Nigeria. The reforms have all been within the framework of the Financial System Strategy (FSS) 2020 and resulted in the revision of the Guidelines for Primary Mortgage Banks to address capital requirements, improve corporate governance and restrict permissible activities to mortgage lending and real estate construction financing. It also led to the birthing of a housing finance program that focused on removing the constraints of the paucity of long term funds for mortgage lending, improving underwriting standards and overcoming foreclosure difficulties, among others.

One of the components of the housing finance program is the establishment of mortgage guarantee companies (MGCs) to further deepen the mortgage market through increased access to mortgage finance and sharing of credit risk with mortgage lending institutions. MGCs facilitate increased access to housing finance by reducing or replacing the requirement for equity contribution that would otherwise disqualify mortgagors from accessing mortgages as required by the uniform underwriting standards. As a credit risk transfer mechanism for mortgage lenders, MGCs enable management of portfolio concentration risk and serve as a basis for capital relief in the computation of capital adequacy ratios on mortgage assets.

Pursuant to the provisions of the Central Bank of Nigeria (CBN) Act 2007, Banks and Other Financial Institutions Act (BOFIA), other relevant Laws, and CBN Guidelines and Circulars, this Guideline is, therefore, issued for the regulatory and supervisory oversight of MGCs. The Guideline prescribes the basic requirements for the business of providing mortgage guarantees to mortgage lenders. It sets the capital requirements for the MGC, including its minimum paid-up capital, maximum leverage limit, and the minimum risk-weighted capital requirement. It also prescribes permissible investments and liquidity requirements in addition to procedures for the management of the MGC's risk profile as prescribed by an actuarial report.

1.1 DEFINITION OF MGC

A Mortgage Guarantee Company (MGC) is a financial institution established to provide guarantees or partial guarantees to lenders against losses resulting from borrower defaults on residential mortgage loans.

1.2 OBJECTIVE OF AN MGC

The objective of an MGC is to support mortgage originators such as Primary Mortgage Banks (PMBs) and commercial banks to increase mortgage lending by guaranteeing or partially guaranteeing against losses resulting from borrower defaults on their residential mortgages.

As a financial institution, the MGC would be under the regulatory and supervisory purview of the Central Bank of Nigeria (CBN).

1.3 POWERS AND DUTIES OF THE CENTRAL BANK OF NIGERIA

In line with the relevant provisions of BOFIA and CBN Act, the CBN shall exercise the following powers:

(a) Granting and revocation of licence;
(b) Determination of the minimum capital requirements;
(c) Approval of the appointment of board members and senior management staff (Assistant General Manager or its equivalent and above);
(d) Removal of board members and senior management staff (Assistant General Manager or its equivalent and above);
(e) Regulation and supervision, which includes:

i. Determining capital adequacy ratio, minimum liquidity ratio, and other prudential requirements;
ii. Prescribing minimum criteria upon which guarantees may be extended;
iii. Prescribing permissible activities;
iv. Prescribing eligible real estate and mortgage assets or portfolios of eligible assets and the appropriate valuation model or methodology;
v. Conducting on-site and off-site supervision;
vi. Imposing sanctions for infractions;

(f) Approving the appointment of External Auditors;
(g) Issuance of no objection on annual audited accounts of MGCs before presentation at the AGM and subsequent publication;
(h) Approving change(s) in the MGC's organisational structure before its implementation; and
(i) Any other power that may be exercised in line with the BOFIA, the CBN Act or any other relevant law.

2.0 PERMISSIBLE AND NON-PERMISSIBLE ACTIVITIES

2.1 PERMISSIBLE ACTIVITIES

The MGC shall engage in the following activities:

i. Full or partial guaranteeing of residential mortgage loans;
ii. Invest in Government securities and other investments defined in Section 8.8 of this Guideline;
iii. Assume ownership of a foreclosed residential property if a lender is unable to dispose of it. Provided that such holding shall not exceed 20% of its shareholders' fund unimpaired by losses without the Bank's prior written approval;
iv. Issue bonds and notes to fund its operations;
v. Provide technical assistance to lenders on credit and business development related activities to increase industry expertise; and
vi. Other activities as may be prescribed by the CBN from time to time.

2.2 NON-PERMISSIBLE ACTIVITIES

The MGC shall NOT engage in the following activities:

i. Acceptance of demand, savings and time deposits;
ii. Grant consumer, commercial or mortgage loans;
iii. Originate primary mortgages;
iv. Finance real estate construction;
v. Estate agency or facilities management;
vi. Project management relating to real estate development;
vii. Management of pension funds/schemes;
viii. Foreign exchange, commodity and equity trading; and
ix. Any other activity NOT expressly permitted by the CBN.

3.0 LICENSING REQUIREMENTS

The licensing process shall consist of two stages:

1. Approval in Principle (AIP); and
2. Final Approval.

3.1 REQUIREMENTS FOR GRANT OF APPROVAL-IN-PRINCIPLE

Any promoter(s) seeking a licence to operate an MGC in Nigeria shall apply in writing to the Governor of the CBN. The application shall be submitted along with the following documents:

a. A non-refundable application fee of N100,000 [one hundred thousand Naira only] or any other amount as may be determined from time to time and payable to the CBN.

b. Evidence of deposit of the capital requirements in line with Section 4.0 of this Guideline. The mode of payment may be through NIBSS or any other acceptable payment channel. The capital deposit will be refunded after the proposed institution obtains its final approval;

c. Evidence of proposed name reservation with the Corporate Affairs Commission (CAC) of Nigeria.

d. A detailed feasibility report which shall include:

    i. The aims and objectives of the proposed MGC (including the vision & mission statements);

    ii. Strategy for achieving the aims and objectives;

    iii. Branch expansion program [if any] within the first 5 years;

    iv. Proposed training programs for staff and management, as well as succession plan;

    v. A five-year financial projection for the operation of the MGC, indicating expected growth and profitability;

    vi. Details of the assumptions which form the basis of the financial projection;

    vii. The organisational structure of the MGC indicating the functions and responsibilities of the board and senior management;

    viii. Composition of the board of directors and interests represented;

    ix. Bank Verification Number (BVN) and Tax Clearance Certificate of each member of the Board and significant shareholders.

    x. The conclusions based on the assumptions made in the feasibility report.

e. A draft copy of the Memorandum and Articles of Association;

f. A list (in tabular form) showing the names of the promoters, amounts subscribed, business and residential addresses, names and addresses of their bankers and evidence of payment, with bank statements attached.

g. Signed and dated curricula vitae of promoters or their nominees, in the case of corporate investor(s);

h. Signed and dated curricula vitae of proposed directors including BVN, Tax Clearance Certificate for the last 3 years and valid means of identification;

i. The business profile of corporate investor(s), if any;

j. The "Approved Persons Regime " questionnaire (Annexure-II) shall be completed and attached to the signed Curriculum Vitae (CV) of each significant shareholder (holding at least 5 per cent of the MGC's equity), proposed directors and top management staff; and

k. A detailed Manual of Operations containing the following:
   i. Guarantee products that the MGC shall offer including the terms and conditions for assigning such guarantees and actuarial standards used to manage the risk inherent in the products.
   ii. Specify the underwriting criteria to be applied in evaluating applications for guarantees.
   iii. Specify the standards and criteria for issuing the guarantee, the portability of the guarantee, and the method of payment for securing the guarantee.
   iv. State the standards and criteria for the pricing of the MGC's products, including differential pricing of equitable and legal mortgages, non-interest mortgages, and other mortgages that might be guaranteed.
   v. Include a Master Guaranty Agreement that will govern the guaranteed provisions between the MGC and the lenders.
   vi. Conform to the applicable provisions of the Guide to Bank Charges.

l. Asset/Liability Management (ALM) Policy that highlights the MGC's permissible assets and liabilities, sets the standards for managing its interest rate, duration risk, and liquidity risk, and delineates the composition, duties, and operational procedures for the MGC's Asset/Liability Management Committee.

m. Financial Management Policy that highlights financial management policies, and procedures and system of internal controls. The Policy should include, at a minimum:
   i. Accounting policies and principles.
   ii. Roles and responsibilities of the senior management officials responsible for financial management.
   iii. Treasury operations, including funds management, vouchers, payroll, and procurement.
   iv. Financial record-keeping and reporting.
   v. Auditing and periodic testing of internal controls.

n. Policy on Anti-Money Laundering /Combating the Financing of Terrorism (AML/CFT).

o. An Enterprise-Wide Risk Management Guideline.

p. Code of Ethics and Business Conduct that specifies high standards for honesty, integrity, and fairness for the MGC's employees, officers, and directors and provides guidance on avoiding conflicts of interest, self-dealing, and other types of impropriety as specified in the BOFIA or by the Bank. Every director and officer of the MGC shall be required to sign the Code of Ethics and Business Conduct.

3.1.1 Following the receipt of an application with complete and satisfactory documentation, the CBN shall communicate its decision to the applicant within 90 days. Where the CBN is satisfied with the application, it shall issue an approval-in-principle (AIP) to the applicant.

3.1.2 A proposed MGC shall not incorporate/register its name with the CAC until it has obtained an AIP from the CBN, in writing, a copy of which it shall present to the CAC for registration.

3.2 REQUIREMENTS FOR GRANTING OF FINAL LICENCE

The promoters of a proposed MGC shall submit an application for the grant of a final licence to the CBN not later than six (6) months after obtaining the A.I.P. The application shall be accompanied by the following:

i. A non-refundable licensing fee of N1,000,000.00 (One Million Naira Only) in a bank draft payable to the Central Bank of Nigeria;

ii. Evidence of capital contribution made by each shareholder;

iii. Certified true copy (CTC) of Certificate of Incorporation;

iv. CTC of MEMART;

v. CTC of Form CAC 1.1;

vi. Address of Head Office for the take-off of the business;

vii. Schedule of changes, if any, in the Board, Management and Shareholding after the grant of AIP;

viii. Signed and dated curricula vitae of proposed top management staff including BVN, Tax Clearance Certificate for the last 3 years and valid means of identification;

ix. Evidence of ability to meet technical requirements in staffing and of having set-up infrastructural facilities such as office equipment, computers, telecommunications, to perform the MGC's operations and meet CBN and other regulatory requirements;

x. Copies of letters of offer and acceptance of employment in respect of the management team;

xi. Comprehensive plan on the commencement of operations with milestones and timelines for the roll-out of key payment channels; and

xii. Board and staff training programme.

3.3. Conduct of Pre-Licencing Inspection

As a requirement to the grant of a final license, the CBN shall inspect the premises and facilities of the proposed MGC to, amongst others:

a. Check the physical structure of the office building and infrastructure provided for take-off;

b. Sight the original copies of the documents submitted in support of the application for license;

c. Meet with the Board and Management team whose CVs had earlier been submitted; and

d. Verify the capital contributions of the promoters.

3.4. Requirements for commencement of operations

The company shall, through a letter, inform the CBN of its readiness to commence operations, and such information shall be submitted along with a copy of each of the following:

a. Shareholders' Register;

b. The share certificates issued to each investor;

c. The opening statement of affairs prepared by a firm of auditors and signed by two directors;

d. Enterprise Risk Management Framework (ERMF);

e. Internal control policy;

f. Minutes of pre-commencement board meeting; and

g. Evidence of integration of their infrastructure with the National Payments System.

3.5. Post-commencement Requirements

An MGC shall:

i. Comply with all guidelines and regulations issued by the CBN and other sector regulators.

ii. Maintain an adequate accounting system and records which capture its financial condition.

iii. Maintain an unimpaired minimum capital at all times.

iv. Always comply with the requirements incidental to the authorisation to perform its operations as stipulated by the CBN.

4.0 FINANCIAL REQUIREMENTS

The financial requirements which may be varied as the CBN considers necessary are as follows:

Minimum paid-up capital	N10,000,000,000.00
Non-Refundable application	N100,000.00
Non-Refundable Licensing Fee	N1,000,000.00
Change of Name fee	N50,000.00

5.0 CORPORATE GOVERNANCE REQUIREMENTS

5.1 BOARD OF DIRECTORS

5.1.1 The ultimate responsibility for the operations of every MGC shall be vested in its Board of Directors.

5.1.2 The number of directors on the board of the MGC shall be a minimum of seven [7] and a maximum of eleven [11] with at least one member having experience actuarial or insurance work. The non-executive members shall exceed the number of the executive directors at any point in time, and at least one shall be an independent director.

5.1.3 The Bank shall approve the appointment of each director who shall meet the qualifications for licenced MGC directors as may be specified by the Bank from time to time.

5.1.4 Executive directors of the MGC shall hold office for a fixed term of not more than 5 years, and such term may be renewed only once, while non-executive directors shall serve for a fixed term of not more than 4 years and such term may be renewed only twice. For the avoidance of doubt, the maximum tenure of an executive director shall not exceed a total of 10 years while a non-executive director shall not serve for periods exceeding 12 years in total.

5.1.5 Any executive director who has served two 5-year terms may equally serve as Managing Director, if so appointed, for the maximum of two 5-year terms (a combined maximum of 20 years).

5.1.6 Transmutation from an executive to a non-executive director shall not be allowed until after 3 years following cessation of the executive appointment.

5.2 MINIMUM QUALIFICATIONS FOR BOARD MEMBERS

5.2.1 The following minimum qualifications and experience are mandatory for persons who may occupy the positions of Managing Director/Chief Executive or executive members of the Board.

- A minimum of first degree from a recognised University or its equivalent in any discipline (additional qualification in any business-related discipline would be an advantage); and
- A minimum of 15 years post-graduation experience, out of which, at least 10, must have been in the financial services industry (related to risk management and insurance), and at least 5, at the senior/top management level.

5.2.2 The following minimum qualifications and experience are mandatory for persons who may occupy the positions of Non-Executive members of the Board.

i. A minimum of first degree from a recognised University or its equivalent in any discipline with at least 5 years post qualification;
ii. Proven skills and competencies in their fields;
iii. Knowledge of the operations of the financial institution and relevant laws and regulations guiding the financial services industry; and
iv. Ability to interpret financial statements and make meaningful contributions to board deliberations.

5.2.3 For the positions of Chief Executive Officer, Chief Operating Officer Chief Financial Officer, Chief Risk Officer, or their equivalents, cognate experience shall be required.

Notwithstanding the requirements stated above, the CBN may, at its discretion, approve or disapprove the appointments of candidates under special circumstances.

5.3 RESPONSIBILITIES OF THE BOARD OF DIRECTORS

5.3.1 The responsibilities of the Board of Directors shall be as specified in the CBN Code of Corporate Governance.

5.3.2 The Board of Directors shall appoint an actuary to review the risk profile of the company on an annual basis and provide the company with an Actuarial Assessment

5.3.3 The Board of Directors shall establish, in addition to other board committees, an audit and risk management committee, with at least one member having a background in actuarial or insurance work. Where the Board has demonstrated it was unable to meet this requirement despite its best endeavour, it shall, subject to prior approval of the CBN, allow a consultant of such background to be an advisor to the Board during its deliberations.

5.3.4 The Board of Directors shall specify the scope of the committees' powers and responsibilities, and their structures, processes and membership requirements. Every Board committee shall be headed by a Non-Executive Directors.

5.3.5 The Board of Directors shall mandate an independent consultant to conduct an annual review/appraisal of the Board in line with the requirements of the CBN Code of Corporate Governance.

5.4 DUTIES OF DIRECTORS

In addition to the duties specified under CAMA, Directors shall have the duty to:

i. Act in good faith, in a manner they believe to be in the MGC's best interests, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

ii. Administer the MGC's affairs fairly and impartially and without discrimination in favour of, or against, any shareholder or client.

iii. Direct the MGC's operations in conformity with the requirements set forth in these regulations and other such requirements and directives as the Bank shall issue from time to time.

iv. Periodically review the following MGC's plans and policies: Business Plan, Capital Plan, Pricing Policy, ALM Policy, Financial Management Policy, and the Code of Ethics and Business Conduct.

v. Prepare and publish the MGC's annual report, including its audited financial statements annually.

vi. Approve annual budgets, financial projections, and proposed pay-outs of dividends.

vii. Establish an Internal Audit function, which shall ensure that the operations of the company conform to internal rules and regulations. The Internal Auditor shall forward his report directly to the Board Audit Committee to strengthen corporate governance in the MGC.

5.5 MINIMUM QUALIFICATIONS FOR SENIOR MANAGEMENT

The following minimum qualifications and experience are mandatory for officers who may occupy senior management positions in the MGC.

i. A minimum of a first degree from a recognised University or its equivalent in any discipline. Additional qualification in any business-related discipline would be an advantage.

ii. A minimum of 10 years post-graduation experience, at least 5 years in the financial services industry with 3 years at top management level.

5.6 DUTIES OF SENIOR MANAGEMENT

The board shall define the duties of senior management to include:

i. Carrying out the directives of the Board of Directors and conducting the day-to-day operations of the MGC in a safe and sound manner, including the establishment, implementation, and maintenance of the internal control system required by these regulations;

ii. Ensuring that the employees of the MGC fully understand and comply with all policies, procedures, and legal requirements applicable to their positions and responsibilities, including adherence to approved risk tolerances and mitigation strategies;

iii. Ensuring that there is appropriate segregation of duties among employees;

iv. Ensuring that employees receive necessary and appropriate information and training;

v. Developing and implementing procedures that translate the major business objectives, strategies, and policies established by the Board of Directors into effective operating standards;

vi. Ensuring adherence to the lines of authority and responsibility established by the Board;

vii. Overseeing the implementation and maintenance of management information and other operating systems;

viii. Establishing and implementing an effective system to track internal control weaknesses and remedial actions;

ix. Monitoring and reporting periodically to the Board of Directors and Board Audit and Risk Committee on the achievement of business objectives and effectiveness of the internal control system;

x. Conducting an annual risk assessment that identifies and evaluates all material risks that could adversely affect the achievement of business objectives and compliance requirements. The risk assessment report shall be reviewed promptly by the Board Risk Management Committee;

xi. Developing and implementing a robust Enterprise-wide Risk Management Framework.

6.0 SOURCES OF FUNDS

The sources of funds for the MGC shall consist of the following:

a) Paid-up share capital and reserves.
b) Debentures/bonds.
c) Loans from national and supra-national governments and other bodies.
d) Donations/ Grants/ Loans from Development Partners.
e) Gifts and donations from charitable institutions.
f) Any other source as may be approved by the CBN from time to time.

7.0 PERIODIC RETURNS

An MGC shall render the following returns to the CBN:

a. Monthly Returns and schedules: Monthly Returns shall include statements of assets & liabilities, income and capital compliance, and leverage (Appendix A).
b. Quarterly Returns and schedules: Quarterly Returns include statements of cash flow, guarantee fees received, claims paid, capital, investments, outstanding guarantees, outstanding liabilities, and shareholders' funds (Appendix A).
c. Annual Actuarial Report: This report shall be produced in accordance with generally accepted Actuarial Reporting Practice and shall provide an assessment of the on-going financial sustainability of the MGC and appropriateness of the guarantee fees, severity ratio, loss ratio, operating expense ratio, combined ratio, return on equity, return on capital holding target and capital available to minimum capital required.

All returns shall be submitted to the Director, Other Financial Institutions Supervision Department, CBN.

7.1 DEADLINE FOR SUBMISSION OF RETURNS

The MGC shall submit the required returns to the Bank within the period specified as follows or as may be specified by the CBN from time to time:

a. Monthly - Not later than ten (10) working days after the end of each month.

b. Quarterly - Not later than ten (10) working days after the end of each quarter.

c. Annual Actuarial Report - Not later than 3 months after the end of its financial year.

7.2 DOMESTIC REPORT & AUDIT OPINION ON GOING-CONCERN STATUS

a. The External Auditors shall forward to the Bank, a copy of the domestic report [management letter] on the MGC's activities, not later than 3 months after the end of its financial year.

b. An MGC shall, as part of its audited financial statements, include a statement on the effectiveness of the internal control signed off by the Board of Directors.

c. Every annual audited financial statement of the MGC shall contain opinion on the ability of such an institution to continue as a going concern into the foreseeable future as required by the International Auditing Guidelines No. 23 on Going Concern. This opinion will take into account the Annual Actuarial Review of the MGC.

7.3 PUBLICATION OF AUDITED FINANCIAL STATEMENTS

7.3.1 An MGC shall submit its audited financial statements, which shall be in line with IFRS and the abridged version to the Director, Other Financial Institutions Supervision Department for consideration before publication.

7.3.2 The annual Financial Statement shall include a description of the methodology for analysing and computing the Premium Deficiency Reserve, Unearned Premium Reserves, Loss Reserves, and Contingency reserve.

7.3.3 Subject to the prior approval in writing of the Bank, an MGC shall not later than 4 months after the end of its financial year:

a. Publish its audited financial statements on its website and in a national daily newspaper printed and circulating in Nigeria; and

b. Display the abridged financial statement in a conspicuous position in each of its offices and branches in Nigeria.

7.3.4 Every published audited financial statement of an MGC shall disclose in detail, penalties paid as a result of the contravention of the provisions of BOFIA, policies, circulars, and guidelines in force during the financial year and the auditor’s report shall reflect such contravention(s).

7.3.5 An MGC shall forward a copy of the newspaper in which it publishes its audited financial statement to the Director, Other Financial Institutions Supervision Department, CBN.

8.0 PRUDENTIAL REQUIREMENTS

8.1 CAPITAL STRUCTURE

An MGC shall maintain at all times a minimum paid-up capital as the Bank may prescribe.

8.1.1 CAPITAL STANDARDS

Capital Adequacy Measurement and Restrictions: All mortgage guarantee companies shall compute capital adequacy ratio and comply with related restrictions based on the Required Solvency Approach laid out in Appendix B.

8.1.2 TIER 1 CAPITAL

Tier 1 Capital shall consist of paid-up capital and reserves plus retained earnings, contingency reserves, and other allowable current earnings less goodwill and other intangible assets and identified losses, or as otherwise defined by the Bank for mortgage guarantee companies.

8.1.3 TIER II CAPITAL

Tier II Capital shall consist of borrowings, debt, and eligible reserves with tenor not less than ten (10) years. Where the tier II capital of an MGC is guaranteed, it shall be required to submit additional reports as may be determined by the CBN from time to time.

8.1.4 RESERVES

MGCs shall maintain three separate reserves as follows:

a. Loss Reserve computed according to the procedures outlined in the Appendix C. This reserve will accurately reflect loss frequency and loss severity and shall include components for claims reported and for claims incurred but not reported including estimated losses on:

    i. Guaranteed loans that have resulted in the conveyance of property that remains unsold;
    ii. Guaranteed loans in the process of foreclosure;
    iii. Guaranteed loans in default for 120 days; and

b. An Unearned Guarantee fees Reserve that will be calculated according to the accounting procedures prescribed in the Operations Manual of an MGC. Current guarantee fees will be taken into income according to these procedures.

c. A Contingency Reserve that will be calculated according to the accounting procedures prescribed in Appendix C. This reserve will be the higher of the contingency reserve calculated or 5% of the total net mortgage guarantee risk assumed.

8.2 CAPITAL ADEQUACY RATIO

a) An MGC shall maintain a Capital Adequacy Ratio (CAR) of more than 100% determined by comparing the Available Solvency Margin (ASM) with the Required Solvency Margin (RSM) (as in Appendix B).

b) Where the CAR is less than 100% but above 75%, an MGC shall be required to report its solvency position and other key indicators at a frequency as may be specified by the Bank. The MGC shall also be required to provide a time-bound action plan to return the CAR above 100% to the Bank.

c) Where the CAR is less than 75% but above 50%, an MGC shall be required to provide an action plan to return the CAR above 75% within the time frame specified by the Bank.

d) Where the CAR is less than 50% but above 25%, an MGC shall be required to implement measures specified by the Bank, which may include new capital injection, within a time frame.

e) Where the CAR is less than 25%, an MGC shall cease underwriting new business and shall be required to take immediate steps as directed by the Bank.

8.3 RESTRICTION ON DIVIDEND

An MGC shall not declare or pay out dividends that will result in the Capital Adequacy Ratio falling below 100%.

8.4 RISK SHARING

An MGC shall retain at least 50% of its risk in force at all times. The balance may be ceded to one or more mortgage re-insurers that have been licenced to operate in Nigeria. Any risk reinsured by an MGC must be in accordance with a written reinsurance strategy submitted to the Bank.

8.5 MORTGAGE GUARANTEE COVERAGE

All requirements for a mortgage guarantee shall be documented in the MGC's program manual and Master Guarantee Agreement.

8.6 ISSUANCE OF MORTGAGE GUARANTEE CERTIFICATE

All measures to be taken to mitigate loss in the event of a delinquent mortgage shall be documented in an MGC's program manual and Master Guarantee Agreement.

8.7 MANAGEMENT OF MORTGAGE GUARANTEE RISK

Every MGC shall be required to hold a portfolio of investments that will adequately hedge the stream of liabilities identified by an Actuary in the Annual Actuarial Report.

8.8 PERMISSIBLE INVESTMENTS AND RESTRICTIONS

The following assets shall be permissible MGC investments:

(a) Government Securities.

(b) Deposits with licenced banks.

(c) Deposits held at the Bank.

(c) Other investments specifically permitted by the Bank.

(d) Financial derivatives subject to the sole purpose of hedging.

8.9 ASSET IMPAIRMENT

Asset impairment shall be recognised, measured, and treated in line with the relevant IFRS provisions.

8.10 UNIFORM UNDERWRITING STANDARDS

An MGC shall uphold the industry Uniform Underwriting Standards (UUS) for residential mortgages.

9.0 OTHER REGULATORY APPROVALS

9.1 APPOINTMENT OF EXTERNAL AUDITORS

The qualifications, appointment, and removal of External Auditors and the Actuaries shall be in accordance with the provisions of BOFIA, CBN circulars and other relevant Laws.

9.2 BRANCH EXPANSION, RELOCATION/CLOSURE

a. An MGC shall not open, relocate or close a branch without the prior approval in writing of the Bank.
b. Every application for the opening of a new branch shall be submitted along with the following documents:
   (i) A copy of Board resolution.
   (ii) A detailed feasibility report on the proposed branch showing the:
      - Rationale.
      - Initial capital outlay.
      - Projected income and expenditures for a 5-year period.
      - Proposed organisational structure.
      - Staffing requirements.
      - Assumption for the financial projection in the report.
c. Every MGC seeking approval for the opening of a new branch must have good financial performance and comply with all prudential requirements.
d. Every application for the closure of a branch shall be submitted along with a copy of the Board resolution and reasons for closure.

9.3 CHANGES IN THE OWNERSHIP STRUCTURE

Except with the prior written consent of the Bank, no MGC shall enter into an agreement or arrangement:

a. resulting in a change in control or ownership of the MGC;
b. for sale, disposal or transfer of the whole or any part of the business of the MGC;
c. for the business combination of the MGC with any other entity;
d. for the reconstruction of the MGC; and
e. to employ a management agent or to transfer its business to any such agent.

10.0 ON-SITE EXAMINATION

10.1 The Bank shall conduct periodic examinations on MGCs, following the same procedures and protocols that it uses to examine other licenced institutions within its supervisory purview.

10.2 MGCs shall make their books and records readily available for inspection and other supervisory purposes within a reasonable timeframe upon request by the Bank.

11.0 COMPLIANCE WITH ANTI-MONEY LAUNDERING/COMBATTING THE FINANCING OF TERRORISM (AML/CFT) REGULATIONS

An MGC shall comply with the Central Bank of Nigeria (Anti-Money Laundering and Combating Financing of Terrorism for Banks and Other Financial Institutions in Nigeria), Regulations, 2013.

12.0 ADMINISTRATIVE SANCTIONS

12.1 The Bank may impose one or more of the following sanctions where any of the provision of this regulation is contravened:

a. Monetary penalties on the MGC, its directors, officers or employees.
b. Prohibition from declaring or paying dividends.
c. Suspension of guarantee and investment operations, capital expenditure, and/or debt issuance.
d. Suspension or removal from office of any director, officer or employee.
e. Disqualification of any director, officer or employee from holding any position or office in any financial institution under the regulatory purview of the Bank.
f. Revocation of licence.

12.2 The Bank may also issue cease and desist orders on an MGC that it believes is engaging in, has engaged in, or has probable cause to believe the MGC is about to engage in an unsafe and unsound practice in conducting the MGC business, or in any conduct that violates any provision of these regulations, any other applicable laws or Bank directives.

13.0 REVOCATION OF LICENCE

Pursuant to the provisions of BOFIA the Governor may, with the approval of the Board of Directors and by notice published in the *Gazette,* revoke the licence of an MGC if it:

a. ceases to carry on the mortgage guarantee business for which the licence was issued for any continuous period of 6 months or any period aggregating 6 months during a continuous period of 12 months;
b. goes into liquidation or is wound-up or is otherwise dissolved;
c. fails to fulfil or comply with any condition subject to which the licence was granted;
d. has insufficient assets to meet its liabilities or has a reduction in the capital adequacy ratio below 25%; and
e. fails to comply with the provisions of this Regulation or any other law.

Appendix A

Reporting Requirements

Non-IFRS Performance Measurement Reports (produced Quarterly)

List of Reports

1. Mortgage Guarantee Volumes; Guarantee Fees Received and Claims Paid Report
2. Geographic Distribution Report (Origination) - Volume
3. Guarantee-in-force report
4. Geographic Distribution - Guarantee-in-force Report
5. Origination Volume by loan amount - Quarterly
6. Origination Volume by Loan amount YTD
7. Loan To Value Ratio Report (Quarterly)
8. Loan to Value Ratio Report (Year to date)
9. Loan To Value Ratio report - Quarterly - Guarantee-in-force - Based on loan amount and property valuation at origination
10. Loan to Value Ratio report - Quarterly - Guarantee-in-force - Based on Outstanding loan amounts and Updated Property Values
11. Credit Score Report Quarterly
12. Credit Score Report YTD
13. Credit Score Report Guarantee- in- force
14. PTI report quarterly
15. PTI report YTD
16. DTI report - quarterly
17. DTI report YTD
18. Purchase price report quarterly
19. Purchase price report YTD

Non-IFRS Performance Measurement Reports (produced Quarterly)

***All reported mortgages are for Residential Properties**

1. Mortgage Guarantee Origination Volumes; Fees Received and Claims Paid Report

Period as at:	CQ		CQ -1	CQ-2	YTD	YTD
	CY	CY-1	CY	CY	CY	CY-1
Total Mortgage Guarantee Volume (Units)						
Legal Mortgages- Homeowner Units						
Equitable Mortgages – Homeowner units						
Total (units)						
Total Mortgage Guarantee Volume (NM)						
Legal Mortgages - Homeowner Loans						
Equitable Mortgages - Homeowner Loans						
Total Loans - NM						
Guarantee Fees received (NM)						
Legal Mortgages - Homeowner Loans						
Equitable Mortgages - Homeowner Loans						
Total Guarantee Fees received (NM)						
Claims paid (NM)						
Legal Mortgages - Homeowner Loans						
Equitable Mortgages - Homeowner Loans						
Total Claims paid (NM)						
Arrears rate						
Legal Mortgages - Homeowner Loans						
Equitable Mortgages - Homeowner Loans						
Arrears rate - Overall						

CQ : Current Quarter, Example: March 2018 CQ-1: Current Quarter - 1 , Example: December 2017

CQ-2: Current Quarter – 2, Example September 2017

CY: Current Year CY-1: Previous Year

2. Geographic Distribution Report (Origination) – Volume

Distribution of loans guaranteed during the period by Nigerian State	Current Year (YTD)				Previous Year (YTD)			
	LM		EM		LM		EM	
	Units	MN	Units	MN	Units	MN	Units	MN
State 1								
State 2								

LM – Legal Mortgages
EM – Equitable Mortgage
MN – Volume in Millions Naira

3. Financial metrics – Guarantee-In-Force

Period	As at	
	Current Quarter	Previous Year end
Legal Mortgages - Guarantee-in-force (# of loans)		
Equitable Mortgages – Guarantee-in-force (# of loans)		
Total Guarantee in force (BN)		
Legal Mortgages – Guarantee-in-force		
Equitable Mortgages – Guarantee-in-force		
Total Guarantee in force		

4. Geographic Distribution – Guarantee-In-Force (BN)

Percentage Distribution of Guarantee in force by Nigerian State	**Current Quarter (CQ)**		**Current Quarter-1 (CQ-1)**		**Current Quarter-2 (CQ-2)**	
	LM	**EM**	**LM**	**EM**	**LM**	**EM**
State 1						
State 2						
……..						
………						

LM – Legal Mortgages
EM – Equitable Mortgages

5. Origination Volume by loan amount - Quarterly

Percentage Distribution of loan amount guaranteed during the period loan amount (per unit)	**Current Quarter CQ**		**Same Quarter Previous Year**		**Current Quarter-1 CQ-1**		**Current Quarter-2 CQ-2**	
	LM	**EM**	**LM**	**EM**	**LM**	**EM**	**LM**	**EM**
Over 50NM								
40NM to 50NM								
30NM to 40NM								
20NM to 30NM								
10NM to 20NM								
Below 10NM								
Average Guaranteed loan amount								

6. Origination Volume by Loan amount YTD

Percentage Distribution of loan amount guaranteed during the period by loan amount (per unit)	Current Year (YTD)		Previous Year (YTD)	
	LM	**EM**	**LM**	**EM**
Over 50NM				
40NM to 50NM				
30NM to 40NM				
20NM to 30NM				
10NM to 20NM				
Below 10NM				
Average Guaranteed loan amount				
Average Guaranteed loan amount by state				
State 1				
State 2				

7. Loan To Value Ratio Report (Quarterly)

Percentage Distribution of loans guaranteed during the period by LTV (original property value)	Current Quarter (CQ)		Same Quarter Previous Year		Current Quarter-1 (CQ-1)		Current Quarter-2 (CQ-2)	
	LM	**EM**	**LM**	**EM**	**LM**	**EM**	**LM**	**EM**
<= 60%								
>60% - <=65%								
>65% - <=70%								
>70% - <= 75%								
>75% - <=80%								
>80% - <=85%								
>85% -<=90%								
Average LTV								
Average Equity								

LM – Legal Mortgages
EM – Equitable Mortgages

8. Loan to Value Ratio Report (Year to date)

Percentage Distribution of loans guaranteed during the period by LTV (original property value)	**Current Year (YTD)**		**Previous Year (YTD)**	
	LM	**EM**	**LM**	**EM**
<= 60%				
>60% - <=65%				
>65% - <=70%				
>70% - <= 75%				
>75% - <=80%				
>80% - <=85%				
>85% -<=90%				
Average LTV				
Average Equity				

LM – Legal Mortgages
EM – Equitable Mortgages

9. Loan To Value Ratio report - Quarterly - Guarantee-in-force - Based on loan amount and property valuation at origination

Percentage Distribution of Guarantee in force by LTV (original property value)	**Current Quarter (CQ)**		**Current Quarter-1 (CQ-1)**		**Current Quarter-2 (CQ-2)**	
	LM	**EM**	**LM**	**EM**	**LM**	**EM**
<= 60%						
>60% - <=65%						
>65% - <=70%						
>70% - <= 75%						
>75% - <=80%						
>80% - <=85%						
>85% -<=90%						
Average LTV						
Average Equity						

LTV is calculated on the basis of loan amount and Property Value at Origination
Distribution is based on outstanding loan amounts not number of loans
LM – Legal Mortgages
EM – Equitable Mortgages

10. Loan to Value Ratio report - Quarterly - Guarantee-in-force – Based on Outstanding loan amounts and Updated Property Values

Percentage Distribution of Guarantee in force by LTV based on outstanding loan amount and updated property value	**Current Quarter (CQ)**		**Current Quarter-1 (CQ-1)**		**Current Quarter-2 (CQ-2)**	
	LM	**EM**	**LM**	**EM**	**LM**	**EM**
<= 60%						
>60% - <=65%						
>65% - <=70%						
>70% - <= 75%						
>75% - <=80%						
>80% - <=85%						
>85% -<=90%						
Average LTV						
Average Equity						

LTV is calculated on the basis of outstanding loan amount and estimated updated property value (based on potential local resale values)

LM – Legal Mortgages
EM – Equitable Mortgages

11. Credit Score Report –Quarterly

Percentage Distribution of loans guaranteed during the period by credit score at origination	**Current Quarter (CQ)**		**Same Quarter Previous Year**		**Current Quarter-1 (CQ-1)**		**Current Quarter-2 (CQ-2)**	
	LM	**EM**	**LM**	**EM**	**LM**	**EM**	**LM**	**EM**
No credit score								
<600								
>=600 - <=660								
>660 - <= 680								
>680 - <=700								
>700 - <=750								
>750								
Average Credit Score								

LM – Legal Mortgages
EM – Equitable Mortgages

12. **<u>Credit Score Report –Year-To-Date</u>**

Percentage Distribution of loans guaranteed during the period by credit score at origination	**Current Year (YTD)**		**Previous Year (YTD)**	
	LM	**EM**	**LM**	**EM**
No credit score				
<600				
>=600 - <=660				
>660 - <= 680				
>680 - <=700				
>700 - <=750				
>750				
Average Credit Score				
Average Score by State at origination				
State 1				
State 2				
…..				

LM – Legal Mortgages
EM – Equitable Mortgages

13. <u>Credit Score Report –Quarterly – Guarantee-in-force</u>

Percentage Distribution of Guarantee in force by credit score at origination	**Current Quarter (CQ)**		**Current Quarter-1 (CQ-1)**		**Current Quarter-2 (CQ-2)**	
	LM	**EM**	**LM**	**EM**	**LM**	**EM**
No credit score						
<600						
>=600 - <=660						
>660 - <= 680						
>680 - <=700						
>700 - <=750						
>750						
Average Credit Score						
Average Score by State at origination						
State 1						
State 2						
…..						

LM – Legal Mortgages
EM – Equitable Mortgages

14. <u>Payment-To-Income (PTI) Report – Quarterly</u>

Percentage Distribution of loans guaranteed during the period by PTI ratio	**Current Quarter CQ**		**Same Quarter Previous Year**		**Current Quarter-1 CQ-1**		**Current Quarter-2 CQ-2**	
	LM	**EM**	**LM**	**EM**	**LM**	**EM**	**LM**	**EM**
<20%								
>=20 - <=25								
>25 - <=30								
>30 - <=35								
>35								
Average PTI								

LM – Legal Mortgages
EM – Equitable Mortgages

15. <u>Payment-to-Income (PTI) report Year-To-Date (YTD)</u>

Percentage Distribution of loans guaranteed during the period by borrower average PTI ratio	**Current Year**		**Previous Year**	
	LM	**EM**	**LM**	**EM**
<20%				
>=20 - <=25				
>25 - <=30				
>30 - <=35				
>35				
Average PTI				
Average PTI by State				
State - 1				
State - 2				
………..				

LM – Legal Mortgages
EM – Equitable Mortgages

16. <u>Debt-To-Income ratio Report (Quarterly)</u>

Percentage Distribution of loans guaranteed during the period by DTI ratio	**Current Quarter CQ**		**Same Quarter Previous Year**		**Current Quarter-1 CQ-1**		**Current Quarter-2 CQ-2**	
	LM	**EM**	**LM**	**EM**	**LM**	**EM**	**LM**	**EM**
<33.3%								
>=33.3 - <=40								
>40 - <=50								
>50								
Average DTI								

LM – Legal Mortgages
EM – Equitable Mortgages

17. <u>Debt-to-Income (DTI) report Year-To-Date (YTD)</u>

Percentage Distribution of loans guaranteed during the period by borrower average DTI ratio	**Current Year**		**Previous Year**	
	LM	**EM**	**LM**	**EM**
<33.3				
>=33.3- <=40				
>40 - <=50				
>50				
Average DTI				
Average DTII by State				
State - 1				
State - 2				
………..				

LM – Legal Mortgages
EM – Equitable Mortgages

18. Purchase Price Report

Percentage Distribution of Loans guaranteed during the period by Purchase Price	**Current Quarter (CQ)**		**Current Quarter-1 (CQ-1)**		**Current Quarter-2 (CQ-2)**	
	LM	**EM**	**LM**	**EM**	**LM**	**EM**
State 1						
Over 50NM						
40NM to 50NM						
30NM to 40NM						
20NM to 30NM						
10NM to 20NM						
Below 10NM						
Average Purchase Price Amount (NM)						

19. Purchase Price Report (YTD)

Percentage Distribution of loan amount guaranteed during the period by purchase Price	**Current Year (YTD)**		**Previous Year (YTD)**	
	LM	**EM**	**LM**	**EM**
Over 50NM				
40NM to 50NM				
30NM to 40NM				
20NM to 30NM				
10NM to 20NM				
Below 10NM				
Average Purchase Price (NM)				
Average Purchase Price by State				
State 1				
State 2				
….				

Appendix B: Required Solvency Approach

CAPITAL

1. Tier I Capital

a. Tier I capital shall comprise the sum of:

i. Paid-up equity capital;

ii. Retained earnings and undistributed current year earnings; and

iii. Free reserves as disclosed in the latest balance sheet of the company.

b. The Tier I capital shall be adjusted for:

i. Accumulated balance of loss, if any;

ii. Deferred revenue expenditure; and

iii. Other intangible assets; and

c. The Tier I Capital shall be further reduced by amount of:

i. Investments in shares of subsidiary companies, or companies in the same group, or all other non-banking financial companies; and

ii. Book value of debentures, bonds, outstanding loans and advances (including hire-purchase and lease finance) made to, and deposits with a subsidiary company, or companies in the same group;

iii. To the extent such amount exceeds ten per cent, of Tier I Capital as defined by (a) and (b) above.

Risk Weights	
Investments	
Cash	0%
Bank Balance & Deposits	20%
Central Government Bonds	0%
State Government Bonds	100°%
Corporate Bonds	100%
Listed Equities	100°%
Non-Listed Equities	100%
Other Assets	
Tangible	100%
Intangible	100%

d. The Tier I Capital shall be further reduced by the amount by which the balance sheet assets are discounted as a result of applying the risk weights listed in the table above.

2. Tier II Capital

a. Tier II Capital shall be the sum of:

i. Preference shares;

ii. Revaluation reserves at a discounted rate of fifty-five per cent;

iii. general provisions and loss reserves to the extent these are not attributable to an actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses and provisions made on standard assets, to the extent of one and one fourth per cent of risk-weighted assets;

iv. hybrid debt capital instruments; and

v. subordinated debt: the amount of subordinated debt to be included as Tier II Capital is its amortised value on a straight-line basis over the last 4 years to maturity in line with the table below

Years to Maturity	**Amount Eligible for Inclusion in Tier II Capital**
More than 4	100 per cent
Less than and including 4 but more than 3	80 per cent
Less than and including 3 but more than 2	60 per cent
Less than and including 2 but more than 1	40 per cent
Less than and including 1	20 per cent

b. Tier II Capital must not exceed Tier I Capital.

CAPITAL ADEQUACY RATIO

An MGC shall determine and report its Capital Adequacy Ratio in tabular form as shown in the table below:

Tier I Solvency Capital	(1)	
Tier II Solvency Capital	(2)	
Total Solvency Assets {(1) + (2)} = Available Solvency Margin (ASM)	(3)	
Contingency Margin[1] = Required Solvency Margin (RSM)	(4)	
Capital Adequacy Ratio (CAR) {(3) / (4)}		

1 Contingency Margin will be determined as outlined in "Appendix C: Reserves"

Appendix C: Reserves

An MGC shall maintain all the reserves listed below:

1. <u>Loss Reserve on Invoked Guarantee</u>

a. An MGC shall hold provisions for losses in respect of invoked guarantees pending its settlement and recovery of assets. The amount of provisions required to be held shall be equal to the contract-wise aggregate of 'amount of invocation' after adjusting the realisable value of the assets held by the company in respect of each housing loan where the guarantee has been invoked.

b. Where the realisable value of the assets held in respect of any called-up guarantee is more than the guaranteed amount, the excess shall not be adjusted against the shortfall in other crystalized guarantees.

c. In case the amount of provisions already held is in excess of the amount as computed above, the excess provision may be reversed after full recovery or closure of the invoked guarantee amount or after the account becomes standard.

2. <u>Incurred But-Not-Reported (IBNR) Reserve</u>
   a. MGCs shall hold provisions in respect of defaulted housing loans where the trigger event is yet to occur or the guarantee is yet to be invoked. The potential loss to which the guarantee company is exposed to is referred to as IBNR losses. The amount of provisions required to be held shall be arrived at on an actuarial basis depending upon the estimates of loss frequency and loss severity for incurred but not reported losses which are derived from historic data, trends, economic factors and other statistical data in relation to paid claims, the provisions held for claims settled, risk statistics, etc.

3. <u>Contingency Reserves:</u>

   MGCs shall create and maintain a "Contingency Reserve" on an ongoing basis. The MGC:

   a. Shall appropriate each year at least forty per cent (40%) of the guarantee fees earned during that accounting year or twenty-five per cent (25%) of the profit (after provisions and tax), whichever is higher, to the Contingency Reserve.
      i. In case of inadequate profits, such appropriation shall either result in or increase the amount of carry forward loss.
      ii. A lower percentage of the guarantee fees earned may be appropriated during any accounting year, subject to a minimum of at least 24 % of guarantee fees earned, when the provisions made each year towards losses on account of settlement of mortgage guarantee claims exceed thirty-five per cent (35 %) of the guarantee fees earned during that accounting year.

b. Shall ensure that the Contingency Reserve is built up to at least five per cent (5%) of the total outstanding mortgage guarantee commitments.

c. Shall retain the amounts appropriated each year to the Contingency Reserve for a minimum period of five (5) years which shall be eligible for reversal only in the sixth-year subject to the condition (b) above.

d. Shall not utilize the Contingency Reserve without the prior approval of the Bank for the purpose of making good the losses suffered by the mortgaged guarantee holders.