CENTRAL BANK OF NIGERIA

LOANS & ACCESS TO CREDIT FACILITIES

WHAT YOU NEED TO KNOW

Silverback Consultants Ltd acknowledges the contributions of:

Somkwe John-Nwosu

Chinyere Agwu

Nene Williams

Temiloluwa Bamigbola

The Consumer Protection Department of The Central Bank of Nigeria.

Hajiya Khadijah Kasim

Edited by Hajiya Umma Dutse

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01. Introduction

A loan is usually an amount of money given to an individual or an institution on the condition that it will be repaid on a later date, with or without interest. Other assets such as land, machinery and buildings can also be given out as loans.

In most loan arrangements, the following are involved:

i. Principal – The amount of money loaned or borrowed.

ii. Interest Rate – A rate charged or paid for the use of money borrowed. An interest rate is usually expressed as an annual percentage of the principal. It is calculated by multiplying the rate of interest by the principal. For example, if a lender (such as a bank) charges a customer 20% interest in a year (per annum) on a loan of N1,000,000.00, then the interest to be paid would be N1,000,000 X 20/100 X 1year = N200,000 (per annum)

iii. Date of Repayment – The date on which the principal and interest must be returned.

However, there are financial institutions that offer non-interest loans. But they share in the profit of the business for which the loan is granted.

02. Importance of Loans

Money is necessary for personal needs and business ideas to be realised. Therefore, when such needs and ideas arise a person or business can approach a financial institution to borrow. People take loans to buy houses, vehicles, to get an education and most importantly businesses take loan for expansion.

Things to consider when taking a loan:

An individual or company should consider:

- The purpose for the loan
- The loan amount required
- The ability to pay principal and interest over the repayment period
- The financial institution to approach
- The collateral (guarantee) for the loan
- The Terms and Conditions of the loan

03. Types of Loans

There are two major types of loan:

Secured Loan

A Secured Loan is a loan in which the borrower pledges assets (e.g. property, movable assets, etc) as collateral (guarantee) for the loan. The assets are always worth more than the amount of the loan, and can be claimed by the lender if the borrower does not pay back the money according to agreed terms and conditions.

Secured Loans include:

- **Term Loan -** This is a loan granted by banks and other financial institutions for a specific amount and repayment terms, as well as a fixed or fluctuating interest rate.
- **Mortgage Loan-** This is a loan granted by banks and other financial institutions for the purchase of real estate (property) usually with specified interest rate and repayment period. It is secured by the property itself. Ownership of the property is transferred to the borrower after full repayment and meeting other obligations. A default will lead to foreclosure (seizing of the property).

Unsecured Loan

An Unsecured Loan is a loan in which the borrower does not pledge any asset as collateral (guarantee) for the loan. This type of loan has more risks for lenders, hence the interest rates are usually higher than secured loans.

Unsecured Loans include:

- **Credit Card Loan** – An electronic card, usually issued by banks and other financial institutions, which allows the holder to spend an amount above his account balance, but up to an agreed limit. Regular checks and reconciliations are carried out at intervals to balance the account and claim interests, charges and principal according to the terms and conditions.
- **Personal Loan** – This is a loan granted to an individual for household or other personal use. Banks and other financial institutions give out these loans based on the borrower's credit history and ability to repay the loan from personal income. It is also referred to as consumer loan.

04. Sources of Loan

Banks and Other Financial Institutions

Banks and other financial institutions are licensed by the Central Bank of Nigeria to grant loans. Customers of these institutions can have access to these facilities.

Co-operative Societies

A Co-operative Society is a group of people who pool funds together to provide loans to their members under certain terms and conditions.

Terms and Conditions for Assessing a Loan

These are general and specific requirements that form important parts of a loan agreement. Whatever the type of loan, Terms and Conditions are very important. Borrowers must fully understand these Terms and Conditions before signing up for the loan. The Central Bank of Nigeria sets guidelines and policies to regulate lending by banks and other financial institutions. Always refer to the CBN's Guide to Bank Charges (GBC) and Monetary Policy Circular.

05. Types of Collateral

Collaterals can be classified into conventional and movable.

Conventional Collaterals

These are the traditional assets accepted by banks and other financial institutions as collateral (guarantees) for loans.

These include:

- Landed Property
- Plant and Machinery
- Stocks and Bonds

Movable Collaterals

With the introduction of the Collateral Registry Regulations by the Central Bank of Nigeria in September 2014, movable assets are now accepted as securities for loans.

These include:

- Auto
- Livestock
- Inventory
- Farm Produce

06. Eligibility for Loans

To be considered eligible for loans, the borrower must:

- Have a bank account
- Be mentally fit
- Be of legal age
- Be credible
- Have good credit rating
- Meet Know Your Customer (KYC) requirement
- Be able to repay

07. Repayment of Loans, Defaults and Consequences

Repayment Of Loans

When a borrower fulfils all the requirements of the loan agreement and repays the principal, interest and all charges on the loan, the borrower is said to be discharged of all liabilities and the loan is considered repaid. For secured loans, all collaterals pledged would be released to the borrower. Naturally, such smooth and peaceful relationship will make the lender want to do business again with that borrower.

On the other hand, if a borrower is unable to meet the repayment obligation, the borrower can request for the loan to be restructured. The loan agreement can run under the adjusted terms.

Defaults and Consequences

Where a borrower fails to meet the terms and conditions of the loan, the following are consequences of the default:

- Loss of collateral
- Naming and shaming
- Poor credit rating
- Prosecution under the law
- Loss of business. etc

08. Conclusion

Loans are an important source of financial relief for individuals and companies. They provide an alternative source of income that assists in meeting personal needs and achieving business expansion.

However, individuals and companies should study and understand the terms and conditions of the loan on offer, to assist them in choosing loan offers that are best suited to their financial capabilities and needs.

It is important to note that all loans taken must be repaid in accordance with the terms and conditions of the offer.

Do not obtain loans from unlicensed individuals and institutions (Loan Sharks) to avoid running into financial difficulties.

09. Frequently Used Loan Terms

Agreement
This is a written or verbal contract between people or groups which spells out their roles, responsibilities and consequences.

Asset
This is an item of value that belongs to an individual or company.

Borrower (Debtor)
This is an individual or company that obtains the use of an asset over a period of time from another individual or institution on agreed terms and condition.

Collateral
These are assets that a borrower pledges to secure a loan. Something promised as security in the event that the loan cannot be repaid.

Debt
This is an amount of money that is owed by an individual or a company.

Default

This is the failure to meet repayment obligations according to agreed terms and conditions.

Drawdown
This is the utilization (withdrawing) of amount granted under a credit (loan) agreement.

Interest
This is an amount that is charged as a percentage of the principal.

Lawsuit
A case before a court.

Lender (Creditor)
An individual or company that loans out an asset to be used for a period of time and returned under agreed terms and conditions.

Lien
This is a legal claim of the lender (creditor) on the asset/collateral of the borrower (debtor) until the debt is fully repaid.

Loan/Credit

This is an amount of money that is given to an individual or company for a period of time with an agreement to pay back.

Moratorium
This is a grace period granted to the borrower before repayment starts. Usually moratoriums are granted on the principal and not the interest.

Mortgage
This is a loan granted for the purchase of property (e.g. a house).

Principal
This is the original amount borrowed.

Repayment
To make payment on loans granted according to terms and conditions.

Tenor
This is the period within which the borrower is expected to repay the loan granted.


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