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LETTER TO ALL BANKS, FEDERAL MORTGAGE BANK OF NIGERIA, NIGERIA MORTGAGE REFINANCE COMPANY AND MORTGAGE BANKING ASSOCIATION OF NIGERIA

EXPOSURE DRAFT ON THE REGULATION FOR THE OPERATIONS OF MORTGAGE GUARANTEE COMPANIES (MGC) IN NIGERIA

In an effort to promote mortgage financing and advance home ownership, the Central Bank of Nigeria (CBN) is proposing the introduction of Mortgage Guarantee Companies (MGCs) in Nigeria.

MGCs are designed to deepen the mortgage market through increased access to mortgage finance and enhancing credit risk with mortgage lending institutions. This is in furtherance of the CBN's objective of promoting affordable financing and a safe and sound financial system.

The Exposure Draft on the Regulation for the Operations of Mortgage Guarantee Companies MGCs in Nigeria is hereby issued for comments and observations. The document may be accessed on the CBN website: www.cbn.gov.ng

We would be pleased to receive comments on the draft guidelines through the Director, Financial Policy and Regulation Department, Central Bank of Nigeria, Abuja by Friday, October 26, 2018. Softcopies of your comments may also be forwarded to cnwanja@cbn.gov.ng and magiwa@cbn.gov.ng

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CENTRAL BANK OF NIGERIA

REGULATION FOR THE OPERATIONS OF

MORTGAGE GUARANTEE COMPANIES (MGC)
IN
NIGERIA

OCTOBER 2018

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LIST OF ACCRONYMS

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AIP	Approval-in-Principle
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
MBAN	Mortgage Bankers Association of Nigeria
MIS	Management Information System
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) introduced a number of laudable reforms to enable mortgage lending institutions achieve their core mandate of creating mortgages to improve home ownership. These reforms are aimed at addressing capital and governance requirements as well as restricting their activities to concentrate on mortgage and project financing. However, the subsectors have been plagued with paucity of long term funds, foreclosure difficulties, inability to meet existing underwriting standards, to concentration of risk on the mortgage lender.

This led to a comprehensive review of the reforms within the framework of the national Financial System Strategy (FSS) 2020. The outcome is the design and implementation of the Nigeria Housing Finance Program (NHFP). The program, a multi-pronged approach to improve access to housing finance through the deepening of the mortgage subsector, has several components designed to deal with the challenges of mortgage business.

A major challenge that had limited the growth of mortgage creation by primary mortgage banks is lack of mortgage refinancing facility to provide long term refinancing which mortgage business most of necessity have. The NHFP has made efforts towards overcoming this hurdle through the launch of a mortgage refinance company which mitigates the risk of asset and liability mismatch from the books of mortgage lenders.

Other initiatives to fashion a suitable business climate for mortgages include the development of industry uniform underwriting standards and advocacy to States of the Federation to adopt a model mortgage foreclosure law. The model law is designed to improve the ease of mortgage business and to ensure that foreclosure processes for delinquent mortgages are not protracted to the financial loss of the mortgage lender. The Program had also engaged relevant stakeholders in a dialogue to improve timely adjudication of commercial and mortgage cases.

The concept of a mortgage guarantee company (MGC) is therefore designed to further deepen the mortgage market through increased access to mortgage finance and sharing of credit risk with mortgage lending institutions. MGCs guarantee will reduce or replace equity contribution that would otherwise disqualify mortgagors from accessing mortgages as required by the uniform underwriting standards.

This Regulation is designed to ensure that an MGC operates in a safe and sound manner, on internationally accepted principle, standards and good practice in mortgage guarantee. It is drawn 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.

The Regulation prescribes the basic requirements for the MGC's principal line of business of guaranteeing mortgages for lenders based on the security of residential mortgage assets. It also 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 OBJECTIVES OF AN MGC

The objectives of the MGC shall be 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 or on their mortgage loan portfolios.

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) Issuing 'No Objection' to 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 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 8.6;
iii. Assume ownership of residential property in the event that a lender is unable to dispose of a foreclosed property. 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 pool of development 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, or any type of 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 accompanied 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 payment of capital requirements in line with Section 4.0 of this Regulation. The mode of payment may be through NIBSS or any other acceptable payment channel, being minimum capital deposit which 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. The strategy for achieving the aims and objectives;

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

    iv. The 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 organizational structure of the MGC indicating the functions and responsibilities of the board and senior management;

    viii. The 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 (MEMART);

f. A list (in tabular form) showing the names of the promoters, amounts subscribed, their business and residential addresses, the names and addresses of their bankers and evidence of payment, with bank statement of account 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 their 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 director 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 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 borrowers.
   vi. Conform to the application provisions of the Guide to Bank Charges.

   B. Asset/Liability Management Policy (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.

   C. Financial Management Policy that highlights the MGC's 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.

D. Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) Policy.

E. An Enterprise-Wide Risk Management Framework

F. Code of Ethics and Business Conduct that specifies high standards for honesty, integrity, and impartiality 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.

3.2 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.

3.3 Proposed MGC shall not incorporate/register its name with the CAC until an AIP has been obtained from the CBN, in writing, a copy of which shall be presented to the CAC for registration.

3.4. REQUIREMENTS FOR GRANTING OF FINAL LICENSE

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

i. 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. Evidence of location of Head Office (rented or owned) 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 their BVN, Tax Clearance Certificate for the last 3 years and valid means of identification;

ix. Evidence of ability to meet technical requirements and modern 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 the MGC's operations with milestones and timelines for roll-out of key payment channels; and

xii. Board and staff training programme.

3.5. Conduct of Pre-Licencing Inspection

As a requirement to the grant of final licence, the CBN shall conduct an inspection of 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 of the PSB;

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 to the CBN;

d. Verify the capital contributions of the promoters; and

3.6. 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 accompanied by one copy each of the following:

a. Shareholders' Register;

b. Share certificate issued to each investor;

c. Opening statement of affairs signed by directors and auditors;

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.

3.7. Post-commencement Requirements

An MGC shall:

i. Comply with all guidelines and regulations issued by the CBN and other sector regulators.
ii. Maintain adequate accounting system and keep records that capture information which reflect its financial condition.
iii. Maintain an unimpaired minimum capital at all times.
iv. Always comply with the requirements incidental to the authorization 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 capital	N6,000,000,000.00
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 every MGC's operations 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]. 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 executive to non-executive director shall not be allowed until after a period of 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 recognized 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 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 recognized 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.

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 actuarial or insurance risk experience.

5.3.4 The Board of Directors shall specify the scope of the committees' powers and responsibilities, and their structures, processes and membership requirements.

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

5.4.1 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, client or borrower.

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.

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 first degree from a recognized 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 developmental 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' fund (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

a. 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.

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

c. An MGC shall, subject to a written letter of 'No Objection' by the CBN:

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

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

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

e. A copy of the newspaper in which the audited financial statement is published shall be forwarded 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 licensed mortgage guarantee companies.

8.1.3 RESERVES

The MGC will 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 dividends out 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 which 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.

(d) Other investments specifically permitted by the Bank.

8.8.1 An MGC shall not engage in foreign exchange, commodity and equity trading.

8.8.2 An MGC shall not engage in the use of financial derivatives except as hedging instruments.

8.9 ASSET IMPAIRMENT

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

8.10 UNIFORM UNDERWRITING STANDARDS

An MGC shall uphold the underwriting standards for residential mortgages as put in place by the CBN, Primary Mortgage Banks and the Mortgage Banking Association of Nigeria (MBAN).

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 accompanied with the following documents:
   (i) A copy of Board resolution.
   (ii) A detailed feasibility report on the proposed branch showing the:
      - Rationale for the proposed branch.
      - Initial capital outlay for the proposed branch.
      - Projected income and expenditures for a 5-year period.
      - Proposed organisational structure of the proposed branch.
      - 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 compliance with all prudential requirements.
d. Every application for the closure of a branch shall be accompanied 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 business combination of the MGC with any other person;
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 MGCs shall be subject to periodic examinations, following the same procedures and protocols that the Bank uses to examine 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 period of time upon request by the Bank.

11.0 COMPLIANCE WITH 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 the Bank believes is engaging in, has engaged in, or has probable cause to believe 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 or any other applicable laws and 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 otherwise dissolved;
c. fails to fulfill 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. **<u>Loan to Value Ratio Report (Year to date)</u>**

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. **<u>Loan To Value Ratio report - Quarterly - Guarantee-in-force - Based on loan amount and property valuation at origination</u>**

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. **Credit Score Report –Year-To-Date**

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. **Credit Score Report –Quarterly – Guarantee-in-force**

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. Payment-To-Income (PTI) Report – Quarterly

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. Payment-to-Income (PTI) report Year-To-Date (YTD)

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. Debt-To-Income ratio Report (Quarterly)

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. Debt-to-Income (DTI) report Year-To-Date (YTD)

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 discounted rate of fifty five per cent;

iii. general provisions and loss reserves to the extent these are not attributable to 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 amortized value on straight-line basis over 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

A 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 will maintain all the reserves listed below:

1. Loss Reserve on Invoked Guarantee

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. Incurred But-Not-Reported (IBNR) Reserve
   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. Contingency Reserves:

   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.