



# UNIFORM MORTGAGE UNDERWRITING STANDARDS FOR THE INFORMAL SECTOR

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THIS DOCUMENT OUTLINES THE UNIFORM MORTGAGE UNDERWRITING STANDARDS UNDER WHICH A MORTGAGE LOAN UNDERWRITTEN BY A MEMBER MORTGAGE LENDING INSTITUTION FOR THE INFORMAL SECTOR WILL BE ELIGIBLE FOR REFINANCING BY NMRC.

<b>Mortgage Loan Criteria</b>	
<b>Purpose of Loan</b>	The mortgage loan may be used to finance the purchase of an existing home or refinance an existing mortgage loan.
<b>Type of Property Eligible</b>	An eligible borrower may use the proceeds of this loan to purchase either a single-family home or an apartment in a multi-unit building. The property acquired must be owner-occupied
<b>Eligible Borrowers</b>	Only natural persons are eligible to borrow. Borrowers shall fall into the informal sector of the economy i.e. self-employed professional, self-employed non-professionals, and Owner/Managers and employees of small and micro enterprises without formal records.
<b>Credit Bureau Report</b>	The Mortgage Lender shall obtain a credit report from two independent credit bureau agencies licensed by CBN showing a credit score that translates to a minimum of satisfactory and above.
<b>Credit Worthiness</b>	Documents that may be used to prove credit worthiness include: <ol style="list-style-type: none"> <li>i. Twelve months payment receipts and or invoices of at least</li> </ol>

	<p>three utility bills (rent, utility payments, waste, water, phone, etc)</p> <p>ii. Letter of reference from his/her suppliers or associates, trade association as applicable.</p> <p>iii. Notarized statement of adequate net worth for the loan program.</p> <p>iv. Evidence and confirmation of satisfactory payments of dues or subscription to approved trade associations or cooperatives as applicable.</p> <p>v. Satisfactory School fees payment record for children/dependents.</p> <p>vi. Any other informal means as acceptable to the Lender to verify or ascertain borrowers' credibility. (***)<i>See Guidance Notes</i>)</p>
<b>Limitations on Co-borrowers</b>	A married couple may serve as Joint Borrowers in the transaction. Where a couple is acting as Joint Borrowers, the income and expense obligations of both parties will apply in determining whether the couple qualifies to participate. If a spouse does not serve as a Joint Borrower, that person shall execute a separate agreement waiving any right to block foreclosure in the event the borrower defaults on the transaction participating agreement. Where Borrower has multiple spouses/partners, or in a recognized civil relationship, every spouse or partner RESIDENT in the property, shall execute the said separate agreement waiving any right to block foreclosure in the event the borrower defaults on the transaction participating agreement.
<b>Minimum Loan Amount</b>	Minimum Loan is as determined by the Lending Institution
<b>Maximum Loan Amount</b>	Maximum Loan Amount is N50 million
<b>Loan Term/Tenor</b>	The Mortgage loan shall have a minimum tenor to maturity of 5 years and a maximum of 20 years.
<b>Borrowers' Age</b>	Minimum – Age of Legal Contract – 21 years
	Maximum – 10 years to the legal retirement age or as determined by industry and / or regulatory guidelines
<b>PENCOM Compliance</b>	As applicable
<b>The Currency in which the loan is Denominated</b>	Funds will be disbursed and payments by the borrower (s) will be made in Naira
<b>Interest Rate Structure</b>	Interest rates may be fixed or variable
<b>Minimum Down-payment</b>	The borrower(s) shall provide a down-payment from his or her own funds equal to / no less than the amount specified in the table below for the value of the property, as determined at the time that the mortgage is being underwritten. This down-payment requirement shall not be fulfilled through a loan from a third party, unless under regulator-approved Special Down Payment Assistance Program (DPAP). Down-payment should be sourced, to ensure legal funds, and seasoned in the bank account for at least 30 days.

	<b>Property Value (N'000)</b>	<b>Down-payment</b>	
	2,000 and above	35%	
	501 – 1,999	25%	
	<Less than 500	20%	
<b>Maximum Permissible Housing-Expense and Total-Debt Ratios</b>	<p>A borrower(s)' monthly housing expense consists of the monthly mortgage payment plus other recurring housing related costs, including real estate taxes and insurance. This is commonly referred as the Payment to Income or PTI ratio. This ratio shall not exceed the percentages presented in the table below of the borrower(s)'s net monthly income at the time that the mortgage is made. A borrower(s)'s debt to income or DTI ratio also includes other payment obligations such as car loans, personal loans, etc. The borrower(s)'s DTI shall not exceed the ratios presented below of the borrower(s)'s net monthly income at the time that the mortgage is made:</p>		
	<b>Recognized Cash Income Band (N'000)</b>	<b>Maximum Housing Expense to Income Ratio</b>	<b>Maximum Debt to Income Ratio</b>
	2,000 and above	35%	50%
	501 – 1,999	25%	40%
	<Less than 500	20%	33.30%
<b>Form of Mortgage Repayment</b>	<p>Payments shall be made by domiciliation of business proceeds to obligors account with Mortgage Lending Bank (MLB) or through the use of direct debit mandate drawn on an account with a minimum of 3 months PITIA in reserves, supported with 3 months of postdated cheques or through the use of BVN which shall also be linked to borrower's other accounts.</p>		
<b>Amortization Structure</b>	<p>Loan repayments are structured such that the loan will be fully repaid by the end of the period for which it is written. In no case may the remaining principal amount that is owned increase during the time that the loan is outstanding. (No Negative Amortization). Default Interest can be charged but not added to principal. After default payment, any payment made shall be applied to interest.</p>		

<b>Prepayment of Mortgage Loan</b>	The borrower(s) may repay the remaining unpaid principal balance of the loan at any time that it is outstanding, but the ML may charge a penalty fee. Where an ML’s product line includes a penalty fee, the information on all charges shall be made available to the borrower before closing. Such charges should be a nominal fee and not to be designed to achieve yield maintenance.
<b>Seasoning</b>	All mortgage loans submitted for refinance shall be at least six months aged, with at least six consecutive monthly payments made, from date of origination.
<b>Delinquency</b>	All mortgage loans submitted for refinance shall be current in monthly re-payments and must have had no delinquencies in the last six months.
<b>Origination Fee</b>	As specified by the Mortgage Banker’s Tariff
<b>Servicing Fee</b>	The borrower will also pay to ML on an annual basis for a fee not exceeding fifty basis points (0.5%) of the outstanding balance of the loan. The fee shall be added to the mortgage interest rate and origination fee and together advertised by the ML as the mortgage loan APR% and paid on a monthly frequency.
<b>Late Fees</b>	Payments that are received more than seven (7) days after they are due will be subject to a late charge. All information on late charges shall be made available to the borrower before closing and borrower consent obtained.
<b>Property Evaluation</b>	Should be carried out by a licensed, independent valuer who is a member in good standing with the Nigerian Institution of Estate Surveyors & Valuers (NIESV) and must carry Professional Indemnity Insurance with an insurance company licensed and in good standing with NAICOM Prequalified independent valuers should:
	(i) adopt international appraisal standards and methods;
	(ii) meet certain minimum requirements; and
	(iii) adopt uniform appraisal process/systems
	The lower of the Purchase Price and Open Market Value (“OMV”) of the property to be acquired will used for computation of the Mortgage Loan
<b>Tenure of Property</b>	Full ownership. Leasehold with a minimum of 40 years from the date the loan is originated or legal maximum, if higher.
<b>Property Title</b>	Good legal title free from encumbrance. Acceptable title documents may be determined according to standards for the community in which the property is located. Financier-Participant shall provide liability surety coverage for property where title is not legally fully perfected.

<b>Security Required</b>	First rank legal perfected mortgage over the property for the amount of the mortgage plus interest. This mortgage right must be assignable to a third party (together with the mortgage loan), and where required by law, with the consent obtained at the signing of the offer letter or the mortgage loan agreement.
<b>Insurance</b>	Property insurance in the name of the borrower to cover the replacement or reinstatement cost of the property. This policy is to be index-based, if available. The borrower shall have life and disability insurance in the joint names of the ML and borrower or the Insurance is assigned to the ML for a minimum of the outstanding principal of the mortgage loan. All insurance policies shall note the ML as the first loss payee.
<b>Title Perfection Duration Insurance</b>	Where a fully perfected Title is not readily available, NMRC may accept Title perfection duration Insurance cover from its approved insurance companies. Such Title cover shall however NOT exceed 18 months from closure of the mortgage. In the event it exceeds, the ML will either have to substitute the mortgage loan with an equivalent loan with title or post acceptable collateral
<b>Consumer Protection</b>	Information provided to borrower is in compliance with the relevant consumer protection and disclosure regulations and as prescribed by the Consumer Protection Department of the CBN.
<b>Mortgage Counseling</b>	The ML shall, during mortgage application process, ensure that the borrower is educated and clearly informed as to the responsibilities he is taking on.
<b>Dispute Resolution</b>	Contractual Arbitration or other acceptable Alternative Dispute Resolution process
<b>Origination Fee</b>	Any applicable origination fee shall always be separated from Principal and Interest and paid out of pocket.

## Guidance Notes to the Underwriting Standards

Eligible Borrowers	A non-Nigerian resident in the country is eligible to apply if he has a valid visa and has stayed in the country for at least one year and is in compliance with any necessary/relevant Immigration Regulation. Such Borrower shall show proof of immigration approval to stay in the country for a period no less than the term of the mortgage repayment period, or three (3) years, whichever the lending institution approves as appropriate for the mortgage application applied for.	
Credit Worthiness	Other informal means for ascertaining credit worthiness may include:	
	i. Independent interviews of family members, neighbors and colleagues in the office/enterprises for background check i.e. KYC	
	ii. Checking on information provided with issuing authorities.	
Income Assessment	NOTE: Lender shall obtain borrower's authorization in writing, in order to contact ANY third parties for any information concerning the said borrower.	
Income Assessment	The borrower shall have been on the trade or business for at least 36 months (continuously in the same industry), supported with operational and/or financial statements of account in respect of his/her business enterprise/activity so as to ascertain net-worth and credit worthiness	
Recognition of cash income (Where income and expense data are not feasible for calculation of net income)	The Borrower's bank statements are the most trustworthy source to ascertain the borrower's cash flow. As such, the borrower shall provide appropriate and acceptable bank statements for previous 12 months, which shall show regular deposits with the last deposit not more than 30 days old. The credit inflow should be discounted as detailed below:	
	Trade (FMCG)	95%
	Manufacturing	85%
	Services	80%
	The 12 months average discounted credit cash flow would be the recognized cash inflow for a month.	

	The discounted credit inflow represents the profit that can be utilized for repayment after netting cost of sales.
	Where salary is paid, the net income would be used.
Amortization Structure	No Negative Amortization. Default interest can be charged but not added to principal. After default amount is paid, any payment made shall be applied to interest.
Mortgage Counseling	ML shall organize Home-Buyer Counseling classes to educate borrowers on their rights and obligations of homeownership, and the legal consequences of default.
	Every borrower shall receive homebuyer counseling prior to closing on their loan, and shall confirm in writing, that such counseling was completed by their financing Lender.