



# Enhancing Financial Inclusion: Uniform Underwriting Standards for the Informal Sector

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# Outline

- About Uniform Underwriting Standards (UUS)
- Comparative Advantages: Lenders/Borrowers/Government
- Fundamentals of the NMRC-driven UUS the Informal Sector
- Successes/Challenges/Lessons Learned





## About Uniform Underwriting Standards (UUS)

- Guidelines used by lenders in a mortgage system to determine if a borrower is an acceptable risk for mortgage financing.
- Used to facilitate effective and efficient mortgage lending procedures
- Improves transparency for customer and advances interest into type of loan product
- Help achieve competitive edge through better service provision and lower costs of refinancing
- Enhances investor confidence in the mortgage product.



# MORTGAGE

# UUS in Nigeria: A Partnership Effort

## Key Players in Developing the Standards:

- Regulator – Central Bank of Nigeria
- Mortgage Lenders – through Mortgage Banking Association of Nigeria (MBAN)
- Secondary Market Operators – NMRC; FMBN
- Service Providers – Insurers, Valuers, etc. – Nigeria Deposit Insurance Company
- Institutional Investors, credit/rating Agencies, DFIs – IFC
- Borrowers/Home Buyers

## Types of Underwriting Standards in the Nigeria Mortgage Market

1. UUS for the Formal sector
2. UUS for the Informal Sector
3. UUS for non-Interest Banking
4. UUS for Diaspora Mortgages

# UUS: Comparative Advantages

## Benefits to Borrowers

- Clarity of documentation required of them
- Easy determination of their capacity to obtain a mortgage
- Homebuyer education as part of the mortgage origination process
- Property title securitization due to title search, due diligence and mortgage registration
- Market stability leading to lower rates and costs

## Benefits to Lenders

- Clarity of guidelines for assessment of borrower eligibility and capacity
- Similarity of documentation and origination process
- Industry stability as a result of uniform approach
- Access to cheaper and longer term funds
- Access to larger market and new borrower pools
- Increased income from mortgage business

## Benefits to Government

- Ease of regulatory supervision
- Ease of market assessment and intervention
- Financial inclusion for its citizenry
- Social and economic stability
- Fulfilment of political mandate
- Growth in IGR from the mortgage sector
- International acceptance of financial standards

# The Informal Sector in Nigeria

## Characteristics:

- The informal economy in SSA is the second-largest in the world, after Latin America and the Caribbean.
- From 2010 to 2014, sub-Saharan Africa's informal economy accounted for 38 percent of GDP to the region.
- Accounts for as high as 65 percent of GDP in Nigeria.
- Acts as a social safety net; provides employment and income to many people that may otherwise be unemployed in the absence of sufficient opportunities in the formal sector.
- Operators generally considered innovative, entrepreneurial and hardworking.
- Women constitute a major segment of informal economy in Nigeria
- Huge creator/employer of labour - accounted for 73.7% of jobs created in 2016, up from 54.0% in 2013
- However, leverages services and benefits provided by taxes paid by the civil servant - largely operates outside the tax and pension nets.

## Contributing Factors:

- Nigeria's Population growth rate of 2.61% pa. To rise to 410 m by 20150
- Urbanisation - rural/urban migration and concentration in major cities like Lagos, Aba, Onitsha, Kano
- High unemployment rates - 18.8%; Underemployment @ 21.2%
- Concentration of growth in most secondary cities with pop. of over a million – Onitsha, Kaduna, Port Harcourt, Owerri, Lokoja, Illorin, etc.
- Huge opportunity for the mortgage sector in Nigeria

# Fundamentals of the UUS for the Informal Sector - I

- Purpose of Loan
- Type of property eligible
- Eligibility of Borrowers
- Credit bureau Report
- Credit Worthiness
- Limitations on Co-borrowers
- Minimum/Maximum loan Amount
- Tenor
- Borrower Age
- PENCOT Compliance
- Currency for the Loan - Naira
- Interest Rate structure
- Minimum down payment
- Maximum Payment to Income & Debt to Income ratios
- Form of Mortgage payment
- Amortization Structure
- Prepayment of Mortgage Loan

# Fundamentals of the UUS for the Informal Sector - II

- Seasoning
- Delinquency
- Origination fee
- Servicing fee
- Late Fees
- Property Valuation
- Tenure of Property
- Property Title
- Security Required
- Insurance
- Title Perfection  
Duration Insurance
- Consumer Protection
- Mortgage Counseling
- Dispute Resolution
- Origination Fee

Guidance Notes to the  
Underwriting Standards



- Growing Pains
- Credit Policy
- Low levels of Mortgage Awareness – MLC Campaign
- Development of Mortgage Guaranty Product
- NMGC – being established to provide full or partial guarantees to lenders against losses resulting from borrower defaults on residential mortgage loans



*Thank You!*

**Q & A**