



CENTRAL BANK OF NIGERIA

REVISED GUIDELINES

FOR

PRIMARY MORTGAGE BANKS

IN NIGERIA

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Abuja, Nigeria.**

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CONTENTS

Table of Contents	2
1 PRIMARY MORTGAGE BANKING OPERATIONS	5
1.1 Definition of Primary Mortgage Business	5
1.2 Permissible Activities	5
1.3 Non-permissible Activities	5
2 APPLICATION FOR LICENCE	6
2.1 Requirements for an Approval-in-principle:	6
2.2 General Conditions for Granting a Final License	7
2.3 Conditions Precedent to Commencement of Operations	8
2.4 Financial Requirements	9
2.5 Board/Management Requirements	9
3 SOURCES OF FUNDS	11
4 RENDITION OF RETURNS	12
4.1 Monthly, Quarterly and AML Returns	12
4.2 Deadline for Submission of Returns:	12
4.3 Domestic Report & Audit Opinion on Going-concern:	12
4.4 Publication of Audited Accounts	13
4.5 Report on Internal Control	13
4.6 Reporting Requirements	14
4.7 Disclosure	14
4.8 Compliance	14
5 PRUDENTIAL REQUIREMENTS	15
5.1 Operating Ratios	15
5.2 Provisioning for Non-Performing Credits	17
5.3 Other Known Losses (OKL)	19
5.4 Maintenance of Statutory Reserves	19
5.5 Uniform Under-writing Standards	20

6	REGULATORY APPROVALS	21
6.1	Appointment of Directors and Management Staff	21
6.2	Appointment of External Auditors	22
6.3	Branch Expansion, Relocation/Closure	23
6.4	Access to the National Housing Funds [NHF] Facility	24
6.5	Changes in the Ownership Structure	25
7	COMPLIANCE WITH LAWS, RULES AND REGULATIONS	26
7.1	Compliance	26
7.2	Prohibitions	26
7.3	Penalties for Various Offences	27
8	GENERAL	31
A.	Annexure 1. 'Approved Persons Regime' Questionnaire	32
B.	Annexure 2: Monthly Returns	40

These revised guidelines are issued by the Central Bank of Nigeria [hereinafter referred to as “the CBN” or “the Bank”] in exercise of the powers conferred on it by the Central Bank of Nigeria Act of 2007 (as amended) and the Banks and Other Financial Institutions Act 25 of 1991 (as amended) [hereinafter referred to as “BOFIA”].

CHAPTER 1
PRIMARY MORTGAGE BANKING OPERATIONS

1.1 PRIMARY MORTGAGE BANKING BUSINESS

A Primary Mortgage Bank [PMB] shall be construed as any company that is licensed to carry out primary mortgage banking business in Nigeria.

1.2 PERMISSIBLE ACTIVITIES

Primary mortgage banks are permitted to engage in the following businesses:

- a. Mortgage finance.
- b. Real estate construction finance within the permitted limits.
- c. Acceptance of savings and time\term deposits.
- d. Acceptance of mortgage-focused demand deposits.
- e. Drawing from mortgage funds (e.g. National Housing Fund Facility) for on-lending.
- f. Financial advisory services for mortgage customers.
- g. Other activities the CBN may approve from time to time.

1.3 NON-PERMISSIBLE ACTIVITIES

Primary mortgage banks shall NOT engage in the following activities:

- a. Grant consumer or commercial loans.
- b. Leasing.
- c. Estate agency or facilities management.
- d. Project management for real estate development.
- e. Management of pension funds/schemes.
- f. All other businesses NOT expressly permitted by these guidelines

CHAPTER 2

APPLICATION FOR LICENSE

2.1 REQUIREMENTS FOR AN APPROVAL-IN-PRINCIPLE:

Any person seeking a licence for the operation of a primary mortgage bank in Nigeria shall apply in writing to the Governor of the Central Bank of Nigeria. The application shall be accompanied with the following:

- a. A non-refundable application fee of N1,000,000.00 [One Million Naira only] or any other amount that may be determined by the Bank from time to time, in bank draft, payable to the Central Bank of Nigeria.
- b. A detailed feasibility report containing information that will include:
 - i. The objectives and aims of the proposed mortgage bank (including a vision & mission statement);
 - ii. The need for the services of the mortgage bank;
 - iii. The branch expansion program [if any] within the first 5 years;
 - iv. The proposed training programs for staff and management succession plan;
 - v. A five year financial projection for the operation of the mortgage bank indicating expected growth and profitability;
 - vi. Details of the assumptions which form the basis of the financial projections;
 - vii. The organisational structure of the mortgage bank indicating the functions and responsibilities of the top management team;
 - viii. The composition of the Board of Directors and the curriculum vitae of each member including other directorships held [if any];
 - ix. The conclusions based on the assumptions made in the feasibility report.
- c. A copy of the draft Memorandum and Articles of Association;

- d. A list (in tabular form) showing the names of the promoters, amounts subscribed, details of the payment instrument (bank name and cheque number), their business and residential addresses and the names and addresses of their bankers;
- e. Evidence of payment of the sum of N5billion (for National authorization), or N2.5billion (for State authorization) to CBN via NIBSS, being minimum capital deposit which will be refunded with interest after the proposed bank obtains its final licence; and
- f. A draft detailed manual of operations.

The application will be subjected to an appraisal which could lead to an Approval-in-Principle (AIP), if successful. The AIP will state conditions to be complied with for the grant of a final licence.

Following the receipt of an application, the CBN shall communicate the status of the application to the applicant within 90 days of its receipt.

No proposed mortgage bank shall incorporate/register its name with the Corporate Affairs Commission (CAC) until an Approval-in-Principle (AIP) has been obtained from the CBN, a copy of which shall be presented to the Corporate Affairs Commission.

After incorporation and opening a corporate account, the proposed PMB may apply for and be paid 20% of its capital deposit to enable it meets its pre-operational expenses without resorting to borrowing same.

2.2 GENERAL CONDITIONS FOR GRANTING A FINAL LICENCE

- a. The promoters of a PMB shall submit the following documents to the CBN before such company is considered for the grant of a final licence and thereafter, permitted to commence operations.
 - (i) A Copy of the shareholders' register in which the equity interest of each shareholder is properly reflected [together with the original for sighting].
 - (ii) A copy of the share certificate issued to each shareholder.
 - (iii) A certified true copies of Form CAC2 (Statement of Share Capital and Return of Allotment), Form CAC3 (Notice of Situation/Change of Registered Address) and Form CAC7 (Particulars of Persons who are first Directors of the Company)
 - (iv) An undertaking stating the following:

- that the Board of Directors approved by the CBN has been constituted.
 - that it shall not engage in capital reduction.
 - that quorum for its Board meetings shall be 2/3 of members.
 - that it shall not change the Board composition, external auditor or engage a management staff without the prior written approval of the CBN.
 - that its directors would comply with the code of conduct for directors of other financial institutions in Nigeria.
- (v) A certified true copy (CTC) of the Memorandum and Articles of Association filed with the Corporate Affairs Commission.
- (vi) A certified true copy of the certificate of incorporation of the company [together with the original for sighting purposes only].
- (vii) A list of the proposed management team, attaching the personally signed and dated curriculum vitae (CV) of each person.
- (viii) The proposed firm of external auditors, attaching a profile of the firm.
- (ix) An application for the refund of the balance of its capital deposit (where it had received 20% of the capital deposit post AIP or full sum where it had not), giving its bank details such as account name, account number, sort code and branch address.
- (x) Evidence of acquisition of a conducive office space and equipping of same, which shall be subject to CBN inspection prior to recommendation for final licence.
- (xi) Evidence of membership of Mortgage Banking Association of Nigeria (MBAN).

2.3 CONDITIONS PRECEDENT TO COMMENCEMENT OF OPERATIONS

Where the company has been granted a final licence for mortgage banking operations, it will submit the following documents prior to commencement of business:

- (i) A copy of the letters of offer and acceptance of employment by management staff and a written confirmation that the management team approved by the CBN had been installed.

- (ii) The opening statement of affairs audited by an approved firm of chartered accountants.
- (iii) A letter to the CBN, stating the date of commencement of business.

CAVEAT

The CBN may at any time vary or review any condition of a licence or impose additional conditions;

Where a licence is granted subject to conditions, the PMB shall comply with those conditions to the satisfaction of the CBN within such period as the CBN may deem appropriate in the circumstances. Any PMB that fails to comply with such conditions shall be guilty of an offence under BOFIA 1991 [as amended].

2.4 FINANCIAL REQUIREMENTS

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

Minimum capital:	i) National PMB	-	N5, 000,000,000.00
	ii) State PMB	-	N2, 500,000,000.00
Non-refundable application fee		-	N1, 000,000.00
Non-refundable licensing fee		-	N2, 000,000.00
Change of name fee		-	N50, 000.00

2.5 BOARD\MANAGEMENT REQUIREMENTS

- a. The number of directors on the board of a Mortgage Bank shall be a minimum of seven [7] and a maximum of fifteen [15]. The non-executive members must be at least twice the number of the executive directors at any point in time.
- b. For non-Nigerian directors, a certificate/ statement of good conduct from the Police Service (or other appropriate authority) in country of domicile shall be required as a documentary attachment.
- c. The following minimum qualifications and experience are mandatory for officers who may occupy the key/top management positions in a PMB.
 - i) Managing Director/Chief Executive - a recognised University Degree, its equivalent or Professional qualification with at least 10 years post qualification experience in banking, finance or other related fields.

- (ii) Departmental Head - a recognised University Degree, its equivalent or Professional qualification with at least 7 years post qualification experience in banking, finance or other related fields.
 - (iii) Any person with any other qualifications or experience that may be considered adequate by the CBN can hold any of positions [i] and [ii] within the institution.
 - (iv) Every PMB shall be required to obtain a written approval of CBN for its organisational structure and top management team.
- d. **TENURE:** Executive directors of a PMB shall hold office for 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 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.
- e. 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 20years).

NOTE: The attached 'Approved Persons Regime' Questionnaire (annexure 1) shall be filled and attached to the document of each significant shareholder (holding at least 5% of the bank's equity), proposed director and management staff's signed curriculum vitae (CV).

CHAPTER 3

SOURCES OF FUNDS

The sources of funds of a PMB shall consist of the following:

- a. Equity paid-up share capital and reserves.
- b. Debenture/other loans.
- c. National Housing Fund (NHF) on-lending loans.
- d. Savings, time\term and mortgage-focused demand deposits.

CHAPTER 4 RENDITION OF RETURNS

4.1 MONTHLY, QUARTERLY AND AML RETURNS

In compliance with the provisions of Sections 58[2] [b] of BOFIA, the following returns are to be submitted to the Bank by every Mortgage bank:

- a. **Monthly Returns and attached schedules (see annexure 2):** Monthly returns shall be submitted to the CBN through electronic channel(s) as may be prescribed by the CBN from time to time.
- b. **Anti-Money Laundering\Combating the Financing of Terrorism Returns:** An AML\CFT return shall be made monthly to the Head, Nigeria Financial Intelligence Unit (NFIU), Economic and Financial Crimes Commission. Where there are no qualifying transactions, a NIL return must be filed.
- c. **Annually:** Audited Financial Statements: to the Director; OFISD, CBN

4.2 DEADLINE FOR SUBMISSION OF RETURNS:

Every Mortgage bank shall submit the required returns to the Bank within the period specified as follows:

- a. Monthly and AML\CFT – not later than fourteen [14] days after the end of each month.
- b. Annually - not later than four [4] months after the end of each accounting year.

4.3 DOMESTIC REPORT & AUDIT OPINION ON GOING-CONCERN:

Section 29(8) of BOFIA requires the approved auditor to forward to the Bank, a copy of the domestic report [management letter] on the PMB's activities, not later than 3 months after the end of the PMB's financial year.

Every audited financial statement of a mortgage bank shall contain opinion on the ability of such an institution to continue into the foreseeable future as required by the International Auditing Guidelines No. 23 on going-concern.

Any auditor that fails to comply with the requirement of this section shall be sanctioned by the Bank.

4.4 PUBLICATION OF AUDITED ACCOUNTS

In accordance with the provisions of Section 27(1) of BOFIA, as amended,

- a. Every PMB shall submit its audited financial statements and the abridged version of the accounts to the Director, Other Financial Institutions Supervision Department for approval before publication.
- b. A PMB shall, subject to a written approval of the CBN, not later than 4 months after the end of its financial year:
 - (i) Publish the abridged version of its approved financial statements in a daily newspaper printed in and circulating in Nigeria and approved by the Bank; and
 - (ii) Exhibit same in a conspicuous position in each of its offices and branches in Nigeria.
- c. Every published account of a PMB, shall disclose in details penalties paid as a result of contravention of the provisions of BOFIA, and provisions of any policy guidelines in force during the financial year in question and the auditor's report shall reflect such contravention
- d. A copy of the newspaper in which the approved account is published shall be forwarded to the Central Bank of Nigeria.
- e. Every audited financial statement must bear the auditors' signature, seal and certification stamp.
- f. The financial statements must be accompanied with:
 - (i) Copies of all relevant certificates of deposit, placement and sums on call from the respective correspondent banks; and
 - (ii) A breakdown of quoted investment (if any), showing name of company, number of units and historical cost of investment.

4.5 REPORT ON INTERNAL CONTROL

- a. The bank must as part of its audited financial statements include a statement on the effectiveness of the internal controls signed off by the Board of Directors.
- b. The internal control framework adopted by the bank should be developed in line with the Committee of Sponsoring Organisations of the Treadway Commission framework (COSO), 2004, and should comprise the following areas of Internal control; control environment, risk assessment, control activities, information/communication and monitoring.

4.6 REPORTING REQUIREMENTS

- a. PMBs licensed after commencement date of the revised guidelines must publish financial reports in line with the International Financial Reporting Standards (IFRS) as regards the standard framework of guidelines for financial accounting and reporting.
- b. Existing PMBs must comply with the transition roadmap of the Financial Reporting Council (FRC) of Nigeria with regards to the adoption of the International Financial Reporting Standards (IFRS) reporting framework.

4.7. DISCLOSURE

- a. Every PMBs must develop, implement and submit evidence of implementation of an internal control framework. (this should be clearly ascertainable from its manual of operations).
- b. A PMB shall make a declaration on the risks faced by the entity and the controls implemented to mitigate the identified risks as part of its directors' report.

4.8 COMPLIANCE

The entity must also demonstrate policies and implementation plans for the Know-Your-Customer (KYC) requirements that financial institutions are expected to perform to identify their clients and ascertain relevant information pertinent to doing financial business with them.

CHAPTER 5 PRUDENTIAL REQUIREMENTS

5.1 OPERATING RATIOS

Every Mortgage Bank shall comply with the following prudential requirements:

- a. **Cash Reserve Ratio [CRR]:** A minimum cash reserve ratio of two percent [2%] of adjusted deposits¹ liabilities shall be in its reserve account with the CBN.
- b. **Liquidity Ratio:** A minimum ratio of twenty percent [20%] on specified liquid assets against deposit liabilities. Specified liquid assets shall include treasury bills, fund placements, money at call and short-term investments with not more than 90 days maturity.
- c. **Capital Adequacy Ratio [CAR]:** A minimum capital adequacy ratio of ten percent [10%] against risk assets.
- d. **Mortgage Assets to Total Assets Ratio:** A minimum of fifty percent [50%] of mortgage assets to total assets.
- e. **Mortgage Assets to Loanable Funds² Ratio:** A minimum of 60% of loanable funds should be used in the creation of mortgage assets.
- f. **Real Estate Construction Finance to Total Assets:** A maximum of twenty five [25%] of real estate construction finance to total assets.
- g. **Fixed Assets/Long-term Investments and Branch Expansion:** No Mortgage Bank shall be allowed to finance any of the following other than from the shareholders' funds unimpaired by losses:
 - (i) acquisition of fixed assets;
 - (ii) equity investments and investment in long-term debentures;
 - (iii) branch expansion: In consideration of request for any or a combination of the above options, reference shall be made to the aggregate value of the listed items against the shareholders' funds unimpaired by losses.

For the avoidance of doubt, the eligible shareholders' funds shall be derived only from the most recent audited financial statement approved by the Bank.

¹Total deposits plus deposits in suspense and dormant account

²Loanable funds = Total deposits plus sums received from FMBN/NHF for on - lending.

- h. **Maximum Equity Investment Holding Ratio:** No Mortgage Bank shall invest more than ten percent [10%] of its shareholders' funds unimpaired by losses in the equity of any venture or undertaking without the prior approval of the Bank.
- i. **Minimum Mortgage Assets in Residential Mortgages:** No mortgage bank shall invest less than 75% of its mortgage assets in residential mortgages.
- j. **Capital Funds to Net Credit Ratio:** Every Mortgage Bank shall maintain at all times a minimum ratio of 1:10 between its shareholders' funds unimpaired by losses and net credits.
- k. **Maximum Exposure to a Single Borrower [Single Obligor Limit]:** No Mortgage Bank shall grant credit which in aggregate value is more than five percent [5%] in the case of an individual and twenty percent (20%), in the case of a corporate body, of its shareholders' funds unimpaired by losses to a single borrower. For avoidance of doubt, the credit as applicable to this Section shall include any advance, loan, financial guarantee, credit facility or any other liability; and for the purpose of this Section, all advances, loans or credit facilities extended to any person shall be aggregated in the determination of the specified limit and shall include all credits extended to any subsidiaries or associates of a body corporate.
- l. **Non-performing loans to total loans ratio:** No PMB shall permit the non-performing loans in its portfolio to exceed 30% of total loans and advances. Once this ceiling is breached, the PMB must suspend granting new loans and advances until it has made such recoveries as would keep this ratio within the permissible range.

Every Director and Manager of a PMB who during his or her tenure fails to ensure compliance with the prudential requirements for a period of not less than six months without sufficient evidence of efforts being made towards the rectification of the deficiency shall have his appointment determined by the Bank including blacklisting from holding any position in any financial institution under the supervisory purview of the CBN. In the case of a director of a PMB who is also on the Board of any other financial institution under the supervisory purview of the Bank, the committal of the foregoing contravention is a ground also for the determination of his continued membership of the Board of such other financial institution.

The Bank shall however inform, in writing, the Board of every PMB of the observed prudential deficiency and shall request it to forward its corrective action plan.

5.2 PROVISIONING FOR NON-PERFORMING CREDITS

In line with the approved prudential requirements for banks and other financial institutions (which took effect on July 1, 2010), the nature and tenor of specialised loans will be key factors in providing for non-performing facilities. To this end, the loans of a PMB may be broken into three (3) main classes namely; mortgage loans, commercial real estate financing and other loans.

a. Mortgage Loans. (Annexure 6 of the prudential requirements)

Category	Classification	Days past due	Treatment of Income	% of Provision
1	Watchlist	Where mark-up/ interest or principal is overdue (past due) by more than 90 days from the due date	Unrealized mark-up / interest to be put in Suspense Account and not to be credited to Income Account except when realized in cash	1% of total outstanding principal balance
1A	Substandard	Where mark-up/ interest or principal is overdue (past due) by more than 180 days from the due date	As above	10% of total outstanding principal balance
2	Doubtful	Where mark-up/ interest or principal is overdue (past due) by more than 1 year from the due date	As above	Un provided balance should not exceed 50% of the estimated net realisable value of the security ¹
3	Lost	Where mark-up/ interest or principal is overdue (past due) by more than 2 years from the due date	As above	100% of total principal outstanding balance

¹ Determine the net realizable value of collateral as objectively as possible, divide this value by two and net off earlier provisions on the same loan. Unprovided balance should then be $\leq 50\%$.

b. Commercial Real Estate Financing

Category	Classification	Days past due	Treatment of Income	% of Provision
1	Watchlist	Where the amount recovered during a period is between 60% and 75% of the amount due and/ or any installment thereof is overdue by more than 180 days	Unrealized mark-up / interest to be put in Suspense Account and not to be credited to Income Account except when realized in cash	1% of total outstanding principal balance
1A	Substandard	Where the amount recovered during a period is less than 60% of the amount due and/ or any installment thereof is overdue by 180 days to 1 year.	As above	25% of total outstanding principal balance
2	Doubtful	Where the amount recovered during a period is less than 60% of the amount due and/ or any installment thereof is overdue by 1 year to 2 years.	As above	50% of total outstanding principal balance
3	Very Doubtful	Where the amount recovered during a period is less than 60% of the amount due and/ or any installment thereof is overdue by 2 years to 3 years.	As above	75% of total outstanding principal balance
4	Lost	Where the amount recovered during a period is less than 60% of the amount due and/ or any installment thereof is overdue by more than 3 years.	As above	100% of total outstanding principal balance

c. Other Loans (all loans that are neither mortgage nor commercial real estate loans but which are “grandfathered”, that is, existed prior to the effective date of this guideline). The provisions for other loans that meet the above criteria shall remain as follows:

Category	Classification	Days Past Due	Treatment of Income	% of Provision
1	Sub-standard	91 – 180 days	Unrealized mark-up / interest to be put in Suspense Account and not to be credited to Income Account except when realized in cash	10% on total outstanding principal
2	Doubtful	181 – 360 days	As above	50% on total outstanding principal
3	Lost	Above 360 days	As above	100% of total outstanding principal

NB: *Performing loans would still attract 1% general provision*

5.3 OTHER KNOWN LOSSES (OKL)

All assets for which the net realizable value has fallen below the historical cost shall have the difference in value recognized and charged to the income account as “other known losses”.

5.4 MAINTENANCE OF STATUTORY RESERVES

Every PMB shall maintain a reserve fund and shall out of its net profit after taxation and before any dividend is declared, transfer to the statutory reserves as follows:

- a. Where the reserve fund is less than the paid-up share capital, a minimum of 20% of the net profit; or
- b. Where the reserve fund is equal to or in excess of the paid-up share capital, a minimum of 10% of net profit;
- c. No transfer to the reserve fund shall be made until all identifiable losses have been made good.

5.4 UNIFORM UNDER-WRITING STANDARDS

It shall be mandatory for every PMB to comply with the under-writing standards for mortgages and commercial real estate financing as shall be jointly agreed by MBAN members from time to time.

CHAPTER 6 REGULATORY APPROVALS

6.1 APPOINTMENT OF DIRECTORS AND MANAGEMENT STAFF

The first directors and management staff of a mortgage bank shall be approved prior to the grant of a final license. Thereafter, every appointment of a director or management staff by the bank shall be with the prior written approval of the Bank.

For this purpose:

- (i) In the case of director[s] the following documents shall be submitted to the Bank:
 - a. A copy of the resolution of an Annual General Meeting [AGM] or an Extra-Ordinary General Meeting [EGM] in the case of a reconstitution of the Board of directors of a PMB;
 - b. A copy of the resolution of the Board of Directors of such mortgage bank in case of filling any vacancy, due to retirement, resignation or death;
 - c. A copy of a detailed curriculum vitae of the proposed director which shall contain career history to date and any other directorship appointments;
 - d. A filled-out copy of the 'Approved Persons Regime' Questionnaire (see Annexure 1).

After obtaining the approval of the Bank, the mortgage bank shall forward the following documents:

- A certified true copy of form CAC7A [Notice of Change of Directors, or in the name, residential address or postal address of Director] reflecting the change in Board composition;
 - A duly completed Director's Code of Conduct Form obtained from the Bank.
- (ii) In the case of a management staff, the mortgage bank shall submit the following documents to the Bank:
 - A copy of the operating organisational structure approved by the Bank;
 - A copy of the Board resolution signed by a director and the Company Secretary in support of the appointment;
 - A copy of the detailed curriculum vitae of the appointee showing educational attainments and career history.
 - A filled-out copy of the 'Approved Persons Regime' Questionnaire (see Annexure 1).

Any Mortgage Bank that contravenes the requirement of this Section shall be subject to the sanction prescribed by the Bank.

6.2 APPOINTMENT OF EXTERNAL AUDITORS

- a. Every PMB shall appoint a person approved by the Bank as “the approved Auditor”.
- b. The duties of the approved Auditor shall include the issuance of a report to the shareholders on the financial statements of a mortgage bank and such report shall contain statements as to the matters and such other information that may be prescribed from time to time by the Bank.
- c. The report of the approved Auditor shall be read together with the report of the directors at the annual general meeting of the shareholders of the mortgage bank.
- d. Auditors of the PMB shall be subject to tenure rules and limits as stipulated by the CBN.
- e. The approved auditor shall be an auditor who satisfies the following requirements:
 - (i) membership of a recognized professional accountancy body in Nigeria;
 - (ii) approved by the Central Bank of Nigeria;
 - (iii) resident in Nigeria;
 - (iv) carrying on in Nigeria, a professional practice as an accountant and/or auditor.
- f. No person shall be appointed as the auditor of a mortgage bank if:
 - (i) He has any interest in that bank otherwise than as a depositor
 - (ii) He is a director, officer or agent of such bank
 - (iii) His firm is one in which a director of the mortgage bank has any interest as partner or director
 - (iv) He is indebted to the mortgage bank.
- g. Any auditor who, after appointment, is subsequently affected by Section f (i-iv) above shall immediately cease to continue as an auditor of the mortgage bank.
- h. If an approved auditor in the course of his duties as an auditor of a mortgage bank is satisfied that:
 - (i) There has been a contravention of BOFIA 1991 as amended or that an offence under any other law, guidelines, circulars, etc. has been committed by the mortgage bank or any of its

officers; or

- (ii) Losses have been incurred by the mortgage bank which substantially reduce its capital funds; or
- (iii) Any irregularity which jeopardizes the interest of depositors or creditors of the mortgage institution or any other irregularity has occurred; or
- (iv) He is unable to confirm that the claims of depositors or creditors are covered by the assets of the mortgage institution.

He shall immediately report the matter to the Central Bank of Nigeria.

- i. The approved auditor shall also forward to the CBN, a copy of his domestic report on the activities of the mortgage bank not later than three [3] months after the end of the financial year of such mortgage bank.
- j. The approved auditor shall have the right of access at all times to all books, accounts and vouchers of the mortgage bank and shall be entitled to require from the directors, managers and officers of the mortgage bank all information and explanations that he considers necessary for the performance of his audit.
- k. If any mortgage bank fails to appoint or fill a vacancy for an approved auditor, the CBN shall appoint a suitable person for that purpose and shall fix the remuneration to be paid by the mortgage institution to such auditor.
- l. The appointment of an approved auditor shall not be determined without a prior written approval of CBN.
- m. Any approved auditor who acts in contravention of the foregoing requirements or fails deliberately or negligently to comply with the requirements of this section shall be liable to a fine of a maximum of N500,000 or a determination of his status as an approved auditor to all financial institutions under the supervisory purview of the CBN.
- n. An approved auditor shall hold office for a continuous period not exceeding 10 years.

6.3. BRANCH EXPANSION, RELOCATION/CLOSURE

- a. No mortgage bank shall 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 in support of the proposed branch
 - (ii) A detailed feasibility report on the proposed branch showing:
 - The rationale for the proposed branch.
 - The initial capital outlay for the proposed branch.
 - Projected income and expenditures for a 3-year period.
 - The proposed organisational structure of the proposed branch.
 - The staffing requirements.
 - The assumption for the financial projections in the report.
- c. The mortgage bank seeking approval for the opening of a new branch must have a track record of good financial performance, regularity in the rendition of all required returns, compliance with laws, rules and regulations.
- d. Every application for the closure of a branch shall be accompanied with the following:
- (i) A copy of Board resolution authorising the closure.
 - (ii) Reasons for the closure with relevant evidence.
 - (iii) Arrangement put in place to settle the customers of the affected branch.

6.4 ACCESS TO THE NATIONAL HOUSING FUNDS [NHFF] FACILITY

- a. No PMB shall be allowed to apply for the NHFF without obtaining from the CBN, a written approval/clearance of its capacity to be considered for such facilities.
- b. In appraising requests from the PMBs, the Bank shall take into consideration the following factors:
 - (i) Compliance with the minimum paid-up share capital and capital adequacy ratio;
 - (ii) Asset quality;
 - (iii) Management competence/stability;
 - (iv) The integrity of the directors of the mortgage bank;
 - (v) Earnings trends;
 - (vi) Liquidity; and
 - (vii) Compliance with laws, rules and regulations.

- c. The written approval/clearance from the Bank shall accompany every application by a cleared mortgage bank to the Federal Mortgage Bank of Nigeria [FMBN] or any other institution legally empowered to disburse such funds.
- d. Every mortgage bank shall utilise wholly and exclusively all funds obtained from the NHF for mortgage lending or the creation of mortgage assets.
- e. Aggregate funds obtained from the NHF shall be shown separately in the balance sheet of every mortgage bank.
- f. Any audited financial statements of a PMB that fails to show separately, the aggregate funds obtained from the NHF in the balance sheet of such an institution shall not be considered for approval by the Bank.

6.5 CHANGES IN THE OWNERSHIP STRUCTURE

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

- a. which results in a change in the control or ownership of the PMB;
- b. for sale, disposal or transfer of the whole or any part of the business of the PMB;
- c. for the amalgamation or merger of the PMB with any other person;
- d. for the reconstruction of the PMB; and
- e. to employ a management agent or to transfer its business to any such agent.

CHAPTER 7

COMPLIANCE WITH LAWS, RULES AND REGULATIONS

7.1 COMPLIANCE

Every mortgage bank shall comply with the requirements of the monetary policy guidelines, the provisions of Banks and Other Financial Institutions Act, 1991 [as amended], all guidelines, rules and regulations, as well as circulars and Supervisory/Regulatory letters issued by the Bank on mortgage activities from time to time.

Subscription to the Mortgage Refinance/Liquidity Company to be floated by PMBs shall be mandatory for all Primary Mortgage Banks.

7.2 PROHIBITIONS

A mortgage bank shall not:

- a. grant any loan, advance or credit facility for the building, improvement or extension of a dwelling house unless adequate security has been taken on an existing property or the property in respect of which the loan or advance is being granted;
- b. grant any loan, advance or credit facility on the security of its own shares;
- c. pay dividend on its shares until all its preliminary expenses, organisational expenses, shares selling commission, amount of losses incurred and other capitalised expenses not represented by tangible assets have been completely written off and adequate provisions made on actual and contingent losses on risk assets;
- d. employ or continue the employment of any person who is or has at any time been adjudged bankrupt or has suspended payment to or has compounded with his creditors or who is or has been convicted by a court for an offence involving fraud, dishonesty or professional misconduct;
- e. permit to be outstanding without the prior approval in writing of the Bank, unsecured advances, loans or credit facilities of an aggregate amount in excess of N1,000,000 to:
 - (i) any of its directors whether such advances, loans or credit facilities are obtained by the directors jointly or severally;
 - (ii) any firm, partnership or private company in which the PMB or any one or more of its directors is/are interested either directly or as a guarantor;
 - (iii) any public or private company in which the PMB or any one or more of its directors jointly or severally maintains shareholding of not less than five percent either directly or indirectly.
- f. engage in any business other than those for which it was licensed; and

- g. write-off any director/insider related facility without the written approval of the Bank.

7.3 PENALTIES FOR VARIOUS OFFENCES

S/N	OFFENCES	PENALTIES
1	Operating without a valid licence	Outright closure of the bank and prosecution of its promoters.
2	Engaging in activities outside the approved business.	A fine of ₦100,000 for each day of the default with a maximum of ₦5 million. In addition, the bank should forfeit the estimated profit
3	Failure to service credit facility granted to Directors and their relations	Forced repayment of the facility plus the accrued interest and suspension of the Director from the membership of the Board until the payment is finally redeemed. Removal from the Board if failure to pay persists beyond 365 days.
4	Failure to obtain the approval of the CBN for the appointment of new Directors and top management staff	A fine of ₦100,000 payable, by the institution, for each of the Directors or top management staff so appointed. In addition, the appointee should cease to function in that position.
5	Late rendition of monthly or quarterly returns	A fine of N10,000 for each day of the default
6	Late submission of audited annual accounts.	A fine of N300,000 for each month during which default occurs.
7	Failure to convene a special meeting of the Board of Directors for the presentation of an Examination Report within four weeks and failure to convey the reaction of the Directors to the CBN within two weeks of the presentation.	A fine of ₦200,000 for each week during which the offence continues.
8	Submission of false/Inaccurate information to regulators.	For the bank, a fine of N5,000,000 For individuals, a fine of ₦100,000. All the Officers involved should be sanctioned
9	Failure to publish annual accounts.	A fine of N500,000 for non publication and thereafter publish in a newspaper

S/N	OFFENCES	PENALTIES
10	Failure to disclose contraventions and penalties in the audited annual accounts.	A fine of N2,500,000 for non-disclosure and thereafter publish again, disclosing the contraventions.
11	Failure to maintain proper books of accounts and records.	A fine of N100,000 for each Director and N50,000 each for the officers involved.
12	Failure to provide any information required by the CBN in the prescribed manner.	In the case of the bank, a fine not more than ₦500,000. In the case of individuals, a fine not more than ₦50,000 in addition to other disciplinary action deemed necessary by the CBN.
13	Failure to report dismissed banking staff to the CBN/NDIC	A fine of N100,000 payable by the bank.
14	Failure to report fraud and forgeries to CBN/NDIC.	A fine of ₦500,000 payable by the bank.
15	(a) Opening or relocation of branch or cash centre without the approval of the CBN. (b) Closing of branch or cash centre without the approval of the CBN.	A fine of ₦500,000 and the closure of such branch/cash centres. A fine of ₦500,000 and in addition the branch should be re-opened.
16	Use of depositors' funds for assets acquisition.	A fine not less than ₦1,000,000 in addition to an immediate injection of funds by the shareholders to the extent of the use of the depositors' funds.
17	Revaluation of fixed assets without CBN approval.	Reversal to the previous value and issuance of a warning letter.
18	Failure to disburse the NHF funds and keep appropriate records as stipulated in the guidelines.	A fine of ₦1,000,000 in addition to forfeiture of interest at MRR during the period the funds were kept. The Managing director and the officer concerned may be sanctioned by the CBN.
19	Change in ownership, take over or amalgamation without CBN approval.	A fine of not less than ₦2million.
20	Contravention of the single obligor limit without CBN approval.	A fine of not less than ₦500,000 for the bank and ₦100,000 together with a warning letter for the approving officer.
21	Change of name without the approval of the CBN.	A fine of ₦500,000 and an immediate reversal to the former name.

S/N	OFFENCES	PENALTIES
22	Non-display of operating licence and the interest rate in a conspicuous location in the Head-Office/Branches/ Cash centres.	A fine of ₦100,000 and the immediate display of the licence/interest rate.
23	Failure to implement the recommendations contained in the examination report	A fine of ₦5,000 for each day of the default and a warning letter to Management and Board.
24	Change of External Auditors without the approval of the CBN.	A warning letter to the Board. In addition the former External Auditor should be re-instated.
25	Failure to report Director related credits to the CBN/NDIC.	A fine of ₦500,000.00 and in addition, the appropriate officer should be sanctioned
26	Failure by Directors to complete the code of conduct forms.	Disqualification and removal of the Director from Office
27	Non-compliance with the code of conduct by the Directors	Removal of the Director from Office
28	Holding AGM without approved accounts	A fine of ₦5,000,000.
29	Failure to establish an Anti-Money Laundering (AML)/Combating Financing of Terrorism (CFT) Unit/ desk function	A fine of ₦500,000 and an immediate establishment of the unit or section.
30	Failure to appoint an AML/CFT compliance officer for the bank	A fine of ₦200,000 and the immediate designation of a management staff as a compliance officer.
31	Non-rendition of cash transaction returns/ suspicious transactions report to Nigerian Financial Intelligence Unit (NFIU) of the EFCC.	A fine of ₦50,000 for each month of breach and recommendation for the prosecution of the bank by EFCC.
32	Failure to train staff on the contents of the AML/CFT regulations and requirements	A fine of ₦200,000 shall be imposed on the bank in addition to an immediate scheduling of staff for the training.

S/N	OFFENCES	PENALTIES
33	<ul style="list-style-type: none"> <li data-bbox="272 309 754 456">(i) Failure to attain the prescribed minimum paid-up share capital within the time allowed. <li data-bbox="272 479 754 696">(ii) Persistent failure / refusal to render the required returns in the prescribed form for a period of twelve months. <li data-bbox="272 719 754 1160">(iii) Persistent failure to comply with any other requirement of the monetary policy guidelines, provisions of the Banks and Other financial Institutions Act (BOFIA) 1991 as amended, as well as other circulars issued by the CBN for a period of twelve months. <li data-bbox="272 1182 754 1294">(iv) Engaging in activities prejudicial to the Nigerian economy. <li data-bbox="272 1317 754 1464">(v) Non-remittance of regulatory returns for 6 months or 2 consecutive quarters <li data-bbox="272 1487 754 1621">(vi) Persistent failure to meet matured obligations to customers; <li data-bbox="272 1644 754 1756">(vii) Engaging in functions and activities outside the scope of the licence; <li data-bbox="272 1778 754 1912">(viii) Any other act which in the opinion of the CBN constitutes a serious offence. 	<ul style="list-style-type: none"> <li data-bbox="778 331 1114 365">Revocation of licence. <li data-bbox="778 483 1114 517">Revocation of licence. <li data-bbox="778 723 1114 757">Revocation of licence. <li data-bbox="778 1189 1114 1223">Revocation of licence. <li data-bbox="778 1301 1114 1335">Revocation of licence <li data-bbox="778 1491 1114 1525">Revocation of licence <li data-bbox="778 1641 1114 1675">Revocation of licence <li data-bbox="778 1787 1114 1821">Revocation of licence

**CHAPTER 8
GENERAL**

- a. Any director who is involved in the management of a licensed primary mortgage bank shall cease to hold office if:
 - (i) he is declared bankrupt by a competent court;
 - (ii) he is convicted of any offence involving fraud or dishonesty;
 - (iii) he is of unsound mind.
- b. No person who had been a director or directly involved in the management of a failed licensed mortgage bank, finance company, discount house, a bank or any other financial institutions shall; without the written authority of the Governor of Central Bank of Nigeria, act or continue to act as a director or be indirectly involved in the management of any licensed mortgage bank.
- c. The CBN shall maintain a black book for directors, officers and employees of any financial institution who commit acts relating to fraud, dishonesty and financial malpractices against their institutions. All mortgage banks are therefore, enjoined to submit the names of such officers, detailing the offences and attaching documentary evidence for the purpose of updating the black book.
- d. The penalties for any breach of the provisions of these guidelines which are not expressly specified against the appropriate section of these guidelines or other regulations of the CBN shall be as set out in the relevant provisions of the CBN Act and BOFIA.

**CENTRAL BANK OF NIGERIA
ABUJA.
November, 2011**

ANNEXURE 1

CENTRAL BANK OF NIGERIA

QUESTIONNAIRE FOR MAJOR SHAREHOLDERS AND APPOINTEES TO BOARD AND MANAGEMENT POSITION IN BANKS AND OTHER FINANCIAL INSTITUTIONS IN NIGERIA

This questionnaire is designed to elicit information which would enable the CBN ascertain your propriety as a shareholder or member of the board/top management in the institution. You are therefore, required to answer every question that relates to you honestly and where applicable, provide evidence to support your answer. Please note that the CBN would periodically request you to attend a performance review interview.

A. BIODATA

1. Name of Institution_____
 2. Name of the appointee/major shareholder_____
 3. Any relationship with the institution_____
 4. Current employment_____
 5. Occupation_____
 6. Date of Birth_____
 7. Place of Birth_____
 8. Nationality_____
 9. Entry/resident permit (foreigners)_____
 10. Parental history_____
- _____
- _____

B. COMPETENCE AND CAPABILITY

1. Give details of educational institutions attended, academic and professional qualifications obtained with dates, in a resume format.
2. Give in a resume format, your:
 - (a) Employment history
 - (b) Type(s) of business(es)
 - (c) Title(s) and duties attached to it
 - (d) Date(s) of employment
 - (e) Name(s) of employer(s), date(s) and place(s) of the employment
 - (f) Reason for leaving, position attained and two referees from former employer(s)

C. HONESTY, INTEGRITY, AND REPUTATION

Please answer the following questions by entering a tick in the appropriate box. If answer to any of these questions is YES, use a separate sheet with proper reference to the question to provide details.

S/N	Question	Yes	No
1	Have you ever been tried for any offence or otherwise found liable by a civil, criminal or tribunal in Nigeria or elsewhere, or is being subject to any pending proceedings which may lead to a conviction? <i>If yes, please give details of the charge and if convicted, the date of conviction, particulars of the offence and the penalty imposed.</i>		
2	Have you been required to give evidence in any trial or proceedings involving fraud, dishonesty or similar matters, whether in Nigeria or elsewhere other than as an expert witness? <i>If yes, give details.</i>		
3	Have you ever been associated with any illegal activity concerning banking business, deposit taking, financial dealing and other business? <i>If yes, give details.</i>		
4	Have you ever been censured, disciplined, warned, made a subject of public reprimand by a regulatory body, or made the subject of a court order at the instigation of a regulatory body in your personal capacity? <i>If yes, give details.</i>		
5	Have you ever served as a director in a company that was censured, disciplined, warned, made a subject of public reprimand by a regulatory body, or made the subject of a court order at the instigation of a regulatory body? <i>If yes, give details.</i>		

S/N	Question	Yes	No
6	<p>Have you ever been subject to any findings or any settlement in civil/criminal proceedings particularly with regard to investments, financial/business, misconduct, examination malpractice, money laundering, fraud, formation or management of a corporate body etc by the Bank, other regulators, professional bodies or government bodies/agencies? Please give details of the circumstances and how it was resolved (if not pending).</p>		
7	<p>Have you ever been involved with a company or firm or other organization that has been refused registration/licence to carry out trade, business etc? If yes, give details.</p>		
8	<p>Have you ever been involved with a company/firm whose registration/ licence has been revoked, cancelled, or gone into liquidation or other similar proceedings? If yes, give details.</p>		
9	<p>Have you ever been barred from being Chief Executive, Chairman, Director or Sponsor/Strategic Investor of a company? If yes, give details.</p>		

S/N	Question	Yes	No
10	Have you ever been dismissed or asked to resign in Nigeria or elsewhere in order to avoid legal or disciplinary action? <i>If yes, give details.</i>		
11	Have you ever been denied membership of any professional body or entry to any profession or vocation whether in Nigeria or elsewhere? <i>If yes, give details.</i>		
12	Have you ever resigned from an organization, professional or regulatory body in Nigeria or elsewhere in order to avoid legal or disciplinary action? <i>If yes, give details.</i>		
13	Have you ever been in default of payment of dues owed to any financial institution in individual capacity or as partner in a partnership firm or in any private unlisted/listed company? <i>If yes, give details.</i>		
14	Has any loan or credit facility (or part thereof) extended to you by any financial institution or lending agency been restructured, renegotiated, provided against or been the subject of write-off or forgiveness for reasons of non-payment by you? <i>If so please provide full details of the debts, the circumstances surrounding the action and the current status.</i>		

S/N	Question	Yes	No
15	Have you ever been in default of taxes in individual capacity or any partnership firm or in any private listed/unlisted company? <i>If yes, give details.</i>		
16	Have you ever been associated as a director or chief executive with a corporate body whose corporate and tax records, including custom duties, excise and value added tax, has been found unsatisfactory by the Federal Inland Revenue Services? <i>If yes, give details.</i>		
17	Have you entered into any agreement with any other person (natural or legal) which will influence the way in which you exercise your voting rights or the way in which you otherwise behave in your relationship with the bank or holding company? <i>If yes, give details.</i>		
18	Are you a director on the Board of Directors of any other Financial Institution(s)? <i>If yes, give details.</i>		
19	Are you a Chairman, Chief Executive, Chief Financial Officer (by whatever name/designation called) of a Company registered by the Securities and Exchange Commission? <i>If yes, give details.</i>		

S/N	Question	Yes	No
20	Do you own or control any other company? <i>If yes, give details.</i>		
21	Have you been or are you working as consultant or adviser to the bank or bank parent company in which you intend to become a director? <i>If yes, give details.</i>		
22	Are you an employee of the bank? <i>If yes, give details.</i>		
23	Are you an employee of a company or organization whose sponsors or significant shareholders have substantial interest in the bank? <i>If yes, give details.</i>		
24	Do you have any immediate relative who holds a top management position (AGM and above) or significant shares in the institution with which this question relates or with any entity affiliated to it? <i>If yes, give details.</i>		

S/N	Question	Yes	No
25	Is there any other information that is relevant for the purpose of this evaluation? <i>If yes, give details.</i>		

D. FINANCIAL SOUNDNESS AND /OR SOLVENCY

You are required to:

1. Forward to the CBN, a statement of your networth comprising your assets at current values and total liabilities as at the date of appointment, which must be accompanied by a sworn affidavit;
2. Forward to the CBN, your bankers’ declaration that you are not in any way indebted to them. If you are, the outstanding amount of the debts should be stated clearly indicating the performance status of the debt (performing or non-performing) and if it is adequately secured or not as well as the nature and type of security(ies) offered;
3. Submit to the CBN, a report from at least, two Credit Bureaux registered in Nigeria in respect of you;
4. Submit to the CBN, a copy of your tax clearance certificates for the last three years;
5. Forward to the CBN, any other information that could assist it in determining your financial stability

E. MISCELLANEOUS

1. Is any member of your family in any relationship with the institution to which this questionnaire relates? If so, please state the nature of the relationship.

2. Are you a serving Non-Executive Director? If yes, when were you first appointed?

3. Please state the number of board meetings you have attended since your appointment in the following format:

Year	Number of meetings
_____	_____
_____	_____
_____	_____
_____	_____

4. What percentage of the financial institution's shares do you directly and/or indirectly own?

5. Have you been employed by an audit firm that assigned you to work on this institution's financial statements during the last two years? If so, please state the name of the audit firm:

DECLARATION BY THE APPOINTEE

I, _____ hereby declare that the answers to the above questions are true and that I am fully aware that any concealment, provision of false or misleading information aimed at influencing the approval of my appointment will constitute a breach of Section 60 of BOFIA, 1991, as amended.

I therefore, affirm that the information supplied above (including the attachment) are to the best of my knowledge, true and where any of it is discovered to be false, I shall be disqualified from the appointment being sought and subsequent appointments by any financial institution under the purview of the CBN.

Signature of Appointee/Significant Shareholder:

Date _____

WITNESSED BY (Managing Director of requesting Primary Mortgage Bank)

Signature _____

Date: _____

A ANNEXURE 2: MONTHLY RETURNS

- I. Statement of assets and liabilities;
- II. Income statement for the month.
- III. Report on interest rates;
- IV. Schedule of other liabilities;
- V. Breakdown of other liabilities;
- VI. Schedule of other assets;
- VII. Breakdown of other assets;
- VIII. Schedule of placements with banks in Nigeria;
- IX. Schedule of takings from banks;
- X. Schedule of takings from other financial institutions;
- XI. Schedule of commercial papers;
- XII. Schedule of money at call with banks;
- XIII. Schedule of money at call from banks;
- XIV. Schedule of placement with other financial institutions;
- XV. Schedule of money at call with other financial institutions;
- XVI. Schedule of money at call from other financial institutions;
- XVII. Schedule of loans and advances to banks in Nigeria;
- XVIII. Schedule of loans and advances from banks in Nigeria;
- XIX. Schedule of loans and advances to other financial institutions in Nigeria;
- XX. Schedule of loans and advances from other financial institutions in Nigeria;
- XXI. Schedule of Bankers Acceptances;
- XXII. Schedule of other creditors;
- XXIII. Schedule of current account balances with banks in Nigeria;
- XXIV. Schedule of current account balances due to banks in Nigeria;
- XXV. Schedule of credit approvals and disbursement by sub-sector;
- XXVI. Report on undrawn commitments;
- XXVII. Fund sources and interest costs;
- XXVIII. Report on deposit ownership;
- XXIX. Report on lending above statutory limit;
- XXX. Report on dismissed/terminated staff;
- XXXI. Returns on fraud and forgeries.
- XXXII. Schedule of non-interest income;
- XXXIII. Schedule of non-performing credit;
- XXXIV. Schedule of non-performing other assets;
- XXXV. Schedule of off-balance sheet engagements [contingent liabilities].