

Date: 17<sup>th</sup> July 2019

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**CBN CIRCULARS ON LENDING DATED 3<sup>RD</sup> JULY 2019 AND 10<sup>TH</sup> JULY 2019**

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On the 3<sup>rd</sup> July 2019 and the 10<sup>th</sup> July 2019, the Central Bank of Nigeria (“CBN”) issued a circular on the Regulatory Measures to Improve Lending to the Real Sector of the Nigerian Economy and subsequent circular on the Guidelines on accessing the CBN Standing Deposit Facility respectively.

The circulars are aimed at improving Lending particularly to the Real Sector of the Nigerian Economy.

The highlights of both Circulars are discussed below:

1. Regulatory Measures to improve Lending to the Real Sector of the Nigerian Economy (3<sup>rd</sup> July 2019)

- (a) All Deposit Money Banks (“DMB’s”) are required to maintain a Loan to Deposit Ratio (“LDR”) of a minimum of 60% from September 30, 2019. An LDR refers to ratio of Loans made available to customers by the DMB to the amount of deposit recorded by the DMB. The implication of this circular is that DMB’s will be required to lend at least 60 kobo for every 1 naira deposited in the Bank.
- (b) As an incentive to encourage lending, the circular states that a weight of 150% will be assigned to SME’s, Retail, Mortgage and Consumer Lending by DMB’s. This means that the minimum requirement of 60% LDR will be easier achieved by DMB’s seeking to lend to the Real Sector given that any lending of NGN1 to the Real Sector will be regarded as NGN1.50.
- (c) As a penalty for DMB’s failure to meet the minimum LDR by the date specified in (a) above, such defaulting DMB shall be subject to a levy of an additional 50% of the lending shortfall of the minimum LDR.

2. Guidelines on accessing the CBN standing Deposit Facility (10<sup>th</sup> July 2019) (“Current Guidelines”)

- (a) This Current Guideline is issued pursuant to the “Guideline on accessing CBN Standing Deposit Facility” dated 6<sup>th</sup> November 2014 (“Previous Guidelines”);
- (b) Under the previous Guidelines, the CBN identified the motive of DMB and Discount Houses of keeping idle balances at the Central Bank in the Standing Deposit Facility (“SDF”), which invariably affects the funds available for lending. In a bid to encourage lending, the CBN prescribed in the Previous Guideline that the remunerable daily placements by the banks and discount houses shall not exceed NGN7.5 billion at an interest rate of 10% per annum.
- (c) The Current Guidelines are not very different from the Previous Guidelines save for the following:
  - (i) The CBN, upon further review, has reduced the remunerable daily placements by the banks at the SDF to Two Billion Naira (NGN2 Billion);
  - (ii) The applicable interest rate for the remunerable amount shall be the rate as prescribed by the Monetary Policy Committee from time to time;

- (iii) Any deposit by a bank in excess of NGN2 Billion shall not be remunerated.

## **DETAIL COMMERCIAL SOLICITORS**