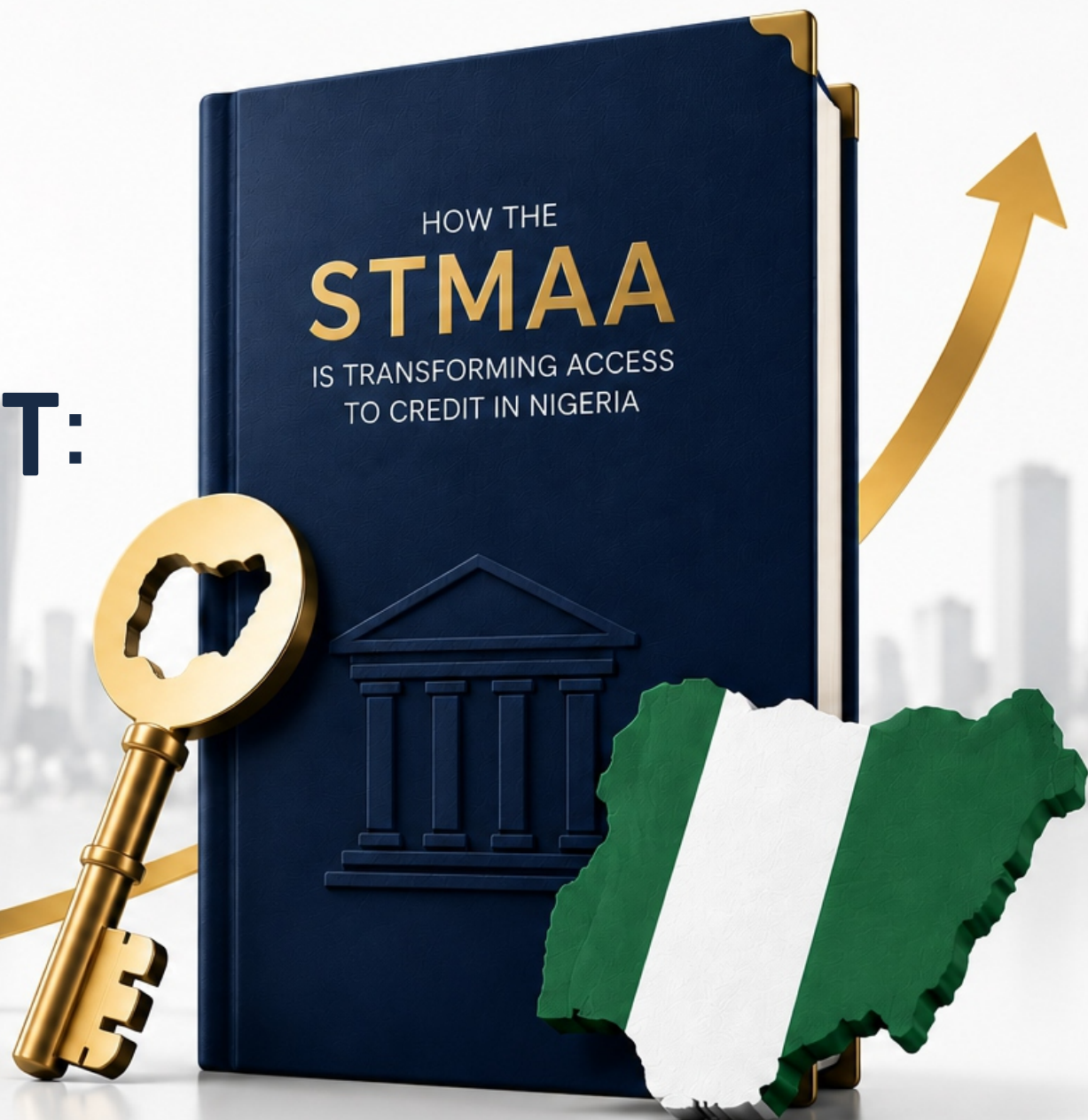




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# THE UNTAPPED BALANCE SHEET:

HOW THE STMAA IS TRANSFORMING  
ACCESS TO CREDIT IN NIGERIA



## Introduction

Nigerian banks have been lending against land for so long that the habit has calcified into orthodoxy. Ask a credit committee whether a manufacturer with ₦2 billion in outstanding receivables qualifies for a working capital facility, and the first question is rarely about the receivables, but what title document the borrower possesses. In an evolving market such as Nigeria, this instinct is understandable and valid. Land does not walk away. However, it is also increasingly indefensible as a universal credit principle, because the businesses that actually drive economic activity, such as the manufacturing, distribution, agro-processing, and logistics are not primarily land holding entities.

The Secured Transactions in Movable Assets Act (STMAA) 2017 gave lenders a legal framework for extending credit against those operating assets properly, and gave borrowers a pathway to institutional finance that did not begin and end at the land registry. Nine (9) years on, the Act is still being underutilised, not because the law is inadequate, but because too many lenders, borrowers, and their advisors have not yet developed the workflow discipline the regime demands.

This write-up seeks to guide lenders, borrowers, legal practitioners and other market participants on navigating asset-based lending under STMAA. It examines the legal framework for creating, perfecting and enforcing security interests in movable assets, the operation of the National Collateral Registry (NCR), the priority rules that shape recovery outcomes, the practical differences between key collateral classes, and the dispute resolution mechanisms available when transactions go wrong.



## Understanding Asset-Based Lending

At its core, asset-based lending means extending credit primarily on the strength of specific, identifiable assets rather than solely on the borrower's general credit profile. While a lender will still assess the borrower's financial condition and creditworthiness, the central focus of the underwriting analysis is the quality, value and realisability of the assets that secure repayment. The lender's key question therefore becomes not merely “is this a good company?” but “what specific assets will repay or secure this loan, and how will those assets perform if the business is in distress?”

Under this form of lending, a lender assessing a receivables-based facility must understand the collection cycles, debtor concentration, dispute rates, and whether any invoices have been subject to contra-trading or previously assigned to another party. Similarly, a lender advancing funds against inventory must understand the rate at which the inventory turns, the basis of its valuation, whether it is adequately insured, and whether any third parties may have competing claims over it. These are fundamentally operational considerations that require credit teams with a deep understanding of the underlying business, rather than merely an understanding of the security documentation.

The reward for developing that capability is access to a much wider lending market, distinct from and broader than the reach of mortgage-based financing. The FMCG distributor with a fully stocked warehouse, the manufacturer with three months of confirmed purchase orders, and the logistics company with a serviceable fleet are all businesses that can support meaningful credit facilities without ever presenting a title deed. What they lacked before 2017 was both a legal framework robust enough to let lenders take comfort in these assets as security, and the underwriting capability to assess them properly.

## Redefining Collateral: From Ownership Culture to Credit Culture

Creditors preference for land titles is common knowledge. A title document is tangible; you can hold it, file it and point to it in court. These are real advantages, and anyone who dismisses them has probably never tried to enforce against a warehouse of spoiled tomatoes.

However, familiarity is not the same as safety. The idea that real estate is inherently secure collateral, that it sits above the fray while riskier asset classes rise and fall, may not survive serious scrutiny. Overvalued and over-leveraged property has diminished balance sheets as comprehensively as any other asset class in history. What determines whether collateral holds under pressure is not just the asset itself. It is the discipline applied to it: whether it was valued honestly, monitored actively, and structured for realisation before the borrower's business began to unravel. As such, a lender sitting on property it never properly valued is making the same mistake as one sitting on receivables it stopped tracking six months ago.

The real cost of land-centric lending is not that it produces bad loans. It is that it leaves good ones unmade. A distributor moving goods worth ₦500 million a quarter, with confirmed purchase orders and a clean receivables book, is not a weak credit. She may be a stronger credit than the property developer with a title deed and an optimistic appraisal. However, under a model that starts and ends with property collateral she may not readily access finance on terms that reflect her business worth.

Shifting to a credit culture means asking different questions. Not just what does this borrower own, but what does this borrower generate? Is the collateral identifiable, traceable, insurable, and realisable when things go wrong?

The commercial case for movable asset lending is therefore not difficult to make. The more important question is whether the legal framework provides lenders with sufficient certainty to rely on those assets as security. The STMAA was enacted to provide that certainty.

### **The STMAA 2017: What the Law Provides**

The STMAA did not introduce asset-based lending against movable assets from a standing start. Before the Act, the Central Bank of Nigeria (CBN) had already begun building the regime administratively, through the Registration of Security Interests in Movable Property by Banks and Other Financial Institutions in Nigeria Regulation No. 1 of 2015, gazetted in February 2015 and notified to banks in June 2016. The Regulation bound CBN-regulated financial institutions to register their security interests in moveable assets, but it stopped short of covering general application that the STMAA would later provide. When the Act came into force in 2017, transactions registered under the 2015 Regulation remained valid for only 180 days unless their financing statements were re-registered in compliance with the STMAA, a transitional detail that still matters for any lender relying on a registration created before the Act took effect.

The STMAA is a focused piece of legislation. What it does is establish a coherent legal framework for the creation, perfection, priority, and enforcement of security interests in movable assets. Four (4) sections are particularly important for lenders and their advising counsel.

Section 3 provides that a security interest may be created over any movable asset, whether tangible or intangible, and whether presently owned or to be acquired in the future. The after-acquired property concept deserves particular attention. For a revolving inventory facility or a receivables-backed revolving credit, it means the security interest automatically captures new stock or new invoices as they come into existence, without requiring fresh documentation each time the collateral pool turns over. That is commercially essential, as without it, a working capital facility would require frequent amendment to remain effective.

Section 5 sets out the formal requirements for a valid security agreement, it states: it must be in writing, signed by the grantor, and must contain a sufficient description of the collateral. The word 'sufficient' matters. It does not mean exhaustive, but it does mean identifiable. A description of 'all goods held at the borrower's Apapa warehouse' is substantially stronger than a description of 'all movable property of the borrower. Courts in analogous jurisdictions have found generic descriptions wanting at the enforcement stage, and there is no reason to expect Nigerian courts to take a more generous view.

Section 8 establishes registration at the National Collateral Registry as the primary method of perfecting a security interest. Perfection is the legal act that makes the security interest effective against third parties, creditors, and a liquidator in insolvency. A security interest that has not been perfected may be valid as between the lender and borrower but is vulnerable in every other direction.

Section 41 provides for the Mediation and Dispute Resolution Panel as the first recourse for civil disputes arising between creditors and borrowers in the implementation of the Act. To operationalise this provision, the CBN issued guidelines setting out the modalities and functioning of the panel, known as the Mediation and Dispute Resolution Panel for Secured Transactions in Movable Assets ("MDRP"). The Panel's function is to preserve relationships between parties in a non-adversarial manner, facilitate the enforcement of securities, and deliver decisions within 90 days from the date of its first hearing.

Unlike mediation under the Arbitration and Mediation Act 2023, the MDRP is an adjudicative panel with binding awards, resembling arbitration. The harmonised Draft Guidelines for the MDRP (the

"Guidelines") provides that the panel decisions are legally binding and enforceable as a consent judgment of a court, and a limited right of appeal to the Court of Appeal exists on points of law or mixed law and fact, after a High Court reviews and sets aside the award on limited grounds.

Access to the MDRP, however, is not automatic. A dispute qualifies for mediation before the Panel only where it is civil in nature and falls within the scope of the Act, and at the point of admission, the parties must be able to confirm three things: that a duly executed security agreement creating a security interest in a specified movable asset exists; that the security agreement contains a clause by which the parties consented in advance to adopt the MDRP as the first option in the event of a dispute; and that the security interest was perfected on the NCR through registration. A lender that skips NCR registration, or leaves out the MDRP consent clause, may find that a dispute which would otherwise have qualified for the Panel's specialist, time-bound process falls outside it entirely.

Once a dispute is properly before the Panel, the process has real teeth. Section 9 of the Guidelines empowers the Panel to issue interim or partial awards before final determination, and these, along with the final award, are enforceable through the courts under an enforcement order obtained by the Panel. Where parties reach an agreed settlement before a final award, that settlement is adopted as the Panel's award and carries the same enforcement effect.

For lenders putting facilities together now, the message is simple: build the MDRP into the transaction from the start. Adding the consent clause to the security agreement and registering on the NCR gives the lender access to a faster, more specialised dispute resolution forum than the regular courts. Any other commercial dispute arising from the lending

relationship that falls outside the scope of the STMAA would continue to be resolved in accordance with the parties' chosen dispute resolution mechanism, whether mediation, arbitration under the AMA 2023, or otherwise.

### Priority: Where Lending Disputes are Actually Won and Lost

A security interest without priority is, in many cases, a security interest with lower value. In a borrower's insolvency, the question is not whether you hold security as most creditors in a formal insolvency will claim some form of security. The question is where you sit in the queue. A second-ranking interest over an asset pool that the first-ranking creditor can fully absorb leaves you in the same position as an unsecured creditor. This is a routine feature of Nigerian insolvency practice.

The STMAA's priority rule is clear in principle: first to perfect generally wins. What lenders sometimes underestimate is how easily that advantage can be lost. A delayed NCR filing, even by 24 hours, can subordinate a lender to a competing creditor that filed while the first lender was still completing internal processes.

The Act also provides for a Purchase Money Security Interest (PMSI), an important exception to the general "first-in-time" priority rule. A PMSI arises where a lender or seller provides funds or credit specifically to enable a borrower to acquire identified assets, such as equipment or inventory. If properly constituted and perfected within the prescribed period, the PMSI enjoys a form of "super-priority", allowing the PMSI holder to rank ahead of an earlier general security interest in respect of the financed assets. This has significant practical implications because many borrowers in the manufacturing, distribution, and trading sectors already operate under broad security arrangements in favour of their

principal bankers. A supplier extending equipment finance or a trade financier funding the acquisition of specific inventory must understand and comply with PMSI requirements to preserve this enhanced priority position. Failure to do so may result in the financed assets falling within a senior lender's general security pool, thereby undermining the protection that a PMSI is intended to provide.



## The National Collateral Registry: Infrastructure, Not Formality

The NCR is the mechanism that makes the STMAA operational. Without it, the Act's provisions on perfection and priority would be statements of principle without a public notice system to give them force. With it, lenders have access to a searchable record of security interests over movable assets that allows pre-deal due diligence to be conducted with a degree of rigour that was previously unavailable.

The NCR is administered by the Central Bank of Nigeria, through a Registrar appointed by the CBN Governor under the Act. Registration is conducted electronically through the Registry's web portal, open to banks, other financial institutions, and any creditor seeking to perfect a security interest in movable assets. A secured party files a financing statement containing the grantor's details, the secured party's details, and a description of the collateral that meets the same sufficiency standard required under Section 5, and the Registry assigns each filing a sequential registration number together with the date and time of submission. That timestamp, not the date of the underlying loan agreement, is what fixes priority among competing claims over the same collateral.

In practical terms, the Registry allows lenders to do the following before committing to a transaction: search the NCR to identify whether the borrower's assets are already encumbered, assess the priority exposure created by existing registrations, and determine whether a proposed security package is achievable in the form intended. After the transaction closes, the Registry allows the lender to register its financing statement, amend that registration as the collateral pool evolves, and continue the registration before it expires so that priority is preserved across the full life of the facility.

For borrowers, the Registry creates something that has real commercial value, which is a searchable, verifiable record of their collateral arrangements. A borrower whose security position is clearly documented and publicly registered is a more credible counterparty to institutional lenders than one whose financing history relies on private assurances and oral arrangements. In a credit market where information asymmetry remains significant, that transparency translates directly into better access and better pricing. Used with appropriate care, the NCR provides a level of due diligence infrastructure for movable asset lending that simply did not exist before 2017.

## Not All Movable Assets are Created Equal

One of the more persistent misconceptions in discussions about Asset-Based Lending is that collateral is broadly fungible, that receivables, inventory, and equipment are interchangeable inputs into a lending structure that can be applied uniformly across sectors. They are not. Each asset class has its own risk profile, its own valuation methodology, its own monitoring requirements, and its own enforcement dynamic. Lenders that fail to distinguish between them produce structures that work in good times and collapse in bad ones.



Receivables are often the most liquid form of movable collateral but carry risks that the numbers do not reveal. A receivables portfolio concentrated in a single government obligor may look strong on paper but be practically illiquid if that obligor is running a payment backlog of 18 months. Lenders need to look at the age profile, the debtor mix, the proportion subject to disputes or set-off rights, and whether any invoices have already been assigned or discounted elsewhere.

Inventory is tangible and often easier to inspect, but ease of inspection does not mean ease of realisation. Finished goods in an FMCG business have a market. Raw materials in a niche manufacturing process may have virtually none, or may only be saleable through the very business whose insolvency has triggered enforcement. Obsolescence, spoilage, and rapid depreciation in distressed sale conditions are real risks that a borrowing base certificate cannot fully capture. The monitoring discipline for inventory needs to be specific to the product type, not generic.

Machinery and equipment typically hold value over a longer period, but that value is often book value, not market value. Used industrial equipment in a distressed disposal scenario realises a fraction of what it shows on a balance sheet, particularly if it is specialised, installed, or requires disassembly and transport. Specialist appraisers matter here. A lender that accepts book value for equipment security without independent market valuation is not secured in any meaningful sense.

Agricultural commodities sit at the highest end of the risk spectrum in the Nigerian context. They are perishable, seasonally priced, often stored in facilities that are difficult to inspect or control, and subject to market volatility that can materially impair the borrowing base between reporting periods. Warehouse receipt financing has developed as a structured response to some of these risks, but it requires an operational control framework; quality inspection, insured storage, verified warehouse receipts that is materially more complex than a standard ABL structure.

## The Precision Workflow: Perfecting the Security Interest

The STMAA provides a legal framework. Whether a lender actually recovers in a default depends almost entirely on how that framework has been executed. In practice, the difference between a security that holds and a security that does not, comes down to these elements:

- 1. Asset Identification:** A security agreement that clearly describes the collateral is not a formality, but the document a court will look at when the borrower contests the lender's right to enforce, and it is the document a receiver will rely on to determine what assets are captured as Security.
- 2. Transaction Documentation:** A good security agreement should clearly identify the debtor, the secured obligations, the collateral class, default triggers, events of acceleration, insurance requirements, maintenance obligations, disposal restrictions, and enforcement rights. The loan documentation should also align the security package with the borrower's business model. A stock financing structure should not look like an equipment finance structure. A receivables-backed facility should not be drafted as if it were real estate finance.
- 3. Perfection before or Contemporaneous with Draw Downs:** NCR registration should occur before or contemporaneously with drawdowns. We recommend the lender builds a registration calendar into the facility management process. Set reminders for continuation filings before expiry. Verify the accuracy of each financing statement before funds are advanced as an error in the grantor's name or the collateral description can compromise priority in a way that is not always correctable after the fact. The NCR search should also be re-run immediately before funding to ensure that no new registrations have been filed in the period between due diligence and closing.
- 4. Monitor the Collateral Actively:** A registration that is followed by three years of silence is not a secured lending relationship. Movable collateral changes continuously: stock turns, receivables age and are collected or disputed, equipment is moved or repurposed, vehicles are written off or sold. The lender needs borrowing base certificates at intervals appropriate to the asset class, covenant reporting that flags material changes in the collateral pool, and physical inspection rights that are exercised, not just reserved. For receivable-heavy portfolios, concentration reporting including specific caps on government-obligor exposure should be a standard facility term. Lenders that discover a deteriorating collateral pool only when the borrower misses a payment have lost the most important window for intervention.
- 5. Enforcement:** Enforcement planning after default is, as a practical matter, enforcement planning under conditions of maximum disadvantage because the lender is dealing with a borrower in financial distress, potentially incomplete records, assets that may have been partially depleted, and time pressure created by the risk of further deterioration. All of the foundational questions, what notice is required, what self-help remedies are available, which assets are captured by the security, what third-party claims exist, and how quickly the assets can be realised should have been answered at transaction inception and reviewed at each monitoring cycle.

## Reimagining the Lending Relationship

Asset Based lending under the STMAA is not a concession to borrowers who cannot meet traditional collateral requirements. It is a distinct credit product that serves a segment of the Nigerian market that has historically been underserved by institutional finance not because those businesses are poor credit risks, but because the legal infrastructure to lend against their assets were not explored. The question for practitioners now is whether the market has the capability to use it well.

For banks and development finance institutions, that means investing in credit teams with genuine sector knowledge rather than generic documentation capability. A relationship manager who can read a receivables ageing schedule and identify concentration risk, or who understands why a particular inventory valuation method overestimates the borrowing base for a specific product type, adds more value than one who can process a land registry search.

For borrowers and particularly the MSMEs and growth-stage businesses that the STMAA was designed to reach, access to movable asset finance comes with obligations that are worth taking seriously. Record-keeping, disposal restrictions, prompt reporting of material changes to the asset base: these are not bureaucratic impositions. They are the conditions on which the lender's confidence in the collateral pool depends, and that confidence is what determines the pricing and availability of the facility.

For lawyers, the STMAA practice area rewards breadth. This is not a documentation-only exercise. Understanding the commercial life cycle of the collateral, the sector dynamics that affect its value, the priority conflicts that can arise from competing legal regimes, and the enforcement realities of the Nigerian market distinguishes lawyers who draft good security documents from lawyers who structure transactions that actually hold. The Act has created the framework. The professional obligation is to use it with the precision it demands.



## Conclusion

Nigeria's credit markets will not serve the full breadth of the productive economy until lenders are as comfortable lending against a warehouse of finished goods or a ledger of confirmed receivables as they are lending against a title deed. The STMAA provides the legal basis for that comfort. What remains is the execution.

The businesses that need this regime to work are real. A manufacturer with a confirmed export order, a distributor with a full cold-chain warehouse, a service business with a strong book of confirmed contracts, these are not marginal credits. They are the growth layer of the Nigerian economy, and they are currently underfinanced because the market has not yet fully internalised what the STMAA makes possible. The practitioners lenders, lawyers, financial advisors and bankers who develop genuine expertise in this space will not simply be better professionals. They will be doing something commercially important.



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