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CONSUMER CREDIT IN NIGERIA: APPRAISAL OF THE EMERGING LEGAL REFORMS FOR ECONOMIC SUSTAINABILITY

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Consumer credit transactions facilitate access to financial resources for individuals and enterprises, serving as a catalyst for economic expansion, financial inclusion, and enhanced purchasing capacity. However, despite its importance in Nigeria there are ancillary provisions or various statutes that are applicable to consumer credit transactions such as the Federal Competition and Consumer Protection Act 2018, Banks and Financial Institutions Act 2020, Credit Reporting Act 2017, Secured Transactions in Movable Assets Act 2017, CBN Act 2007, the Consumer Protection Agency Law 2012 of Lagos alongside guidelines like the FCCPC Fair Lending and Debt Collection Guidelines (2024) and CBN Guidelines on Responsible Digital Lending (2024). Without a comprehensive regulatory framework, the path for sustainable economic development is plagued by enormous challenges in regards to consumer protection, capital stability and equitable access to credit. This paper critically examines the relationship between Consumer Credit Transactions and Economic Sustainability in Nigeria, analyzing the legal and regulatory framework to facilitate sustainable development. It examined the existing regime of consumer credit in Nigeria by critically scrutinizing several legislative instruments. Additionally, the paper tackles the regulation of money lending activities. Comparative perspectives from developed economies, such as the United States with its strong consumer credit laws are drawn to enrich the analysis. The paper discusses the need for Nigeria to adopt tailor made consumer credit regulations in line with international best practices, in order to achieve sustainable development. The study concluded by proposing actionable legal and regulatory recommendations such as strengthening oversight of digital lenders through proactive monitoring and sanctions and Promoting financial literacy to empower consumers.

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1. INTRODUCTION

In Nigeria, millions of low-income individuals and small business owners rely on predatory lenders, informal networks, or cooperative savings groups to meet urgent financial needs.[1] These alternatives, while very popular, are unsustainable: they offer limited funds, exorbitant interest rates, thus trapping borrowers in cycles of debt. Meanwhile, in advanced economies like the United States, consumer credit systems backed by robust legal frameworks enable individuals to access affordable credit cards, mortgages, and personal loans, fueling economic participation and stability.[2]

Credit scarcity perpetuates poverty, worsening income disparities and excluding vulnerable groups from formal financial systems directly contravening Sustainable Development Goals (SDGs) 1 (No Poverty) and 8 (Decent Work and Economic Growth).

Legislative efforts like the Secured Transactions in Movable Assets Act (STMA) 2017 aim to modernize credit markets in Nigeria by enabling movable assets to serve as collateral. The Act facilitated the creation of the National Collateral Registry. Complementing credit reforms, recent tax policies seek to alleviate income inequality. Section 37 of the Finance Act 2020 introduced progressive measures, such as exempting individuals earning below ₦30,000 monthly from personal income tax. This aims to increase disposable income for low-earners. Together, the STMA Act and tax reforms show Nigeria's steps toward

[1] Wisdom Clinton Soreh, 'Escaping the Cobwebs of Predatory Lenders: An Awareness Campaign and Guide to the Civil Servant in Nigeria' (2021) 3 (2) International Journal of Advances in Engineering and Management (IJAEM) 4 <Escaping the Cobwebs of Predatory Lenders An Awareness Campaign and Guide to the Civil Servant in Nigeria.pdf> accessed 28 March 2025.
[2] Gunnar Trumbull, 'Credit Access and Social Welfare: The Rise of Consumer Lending in the United States and France' (2012) 40 Politics & Society 9.

inclusive economic policies. Yet, barriers endure, predatory digital lenders exploit regulatory ambiguities.[3]

Consumer credit, which allows individuals and households to obtain financial resources, is crucial in driving economic growth, advancing financial inclusion, and boosting consumer purchasing power.[4] Additionally, it helps individuals overcome financial shortfalls, invest in productivity, and encourage economic activity. However, despite its critical importance, the existing legal structure is disjointed. This regulatory void creates substantial obstacles to sustainable development, particularly in areas such as consumer protection, financial stability, and fair access to credit.[5] This deficiency also undermines financial inclusion and aggravates economic disparities, directly contradicting the United Nations Sustainable Development Goals (SDGs), particularly Goal 8 (Decent Work and Economic Growth) and Goal 10 (Reduced Inequalities).[6]

This paper interrogates how Nigeria's fragmented credit regulations impede sustainable development, highlighting the legal and regulatory frameworks necessary for facilitating sustainable development. It scrutinizes the existing regulatory environment governing consumer credit in Nigeria, focusing on key legislative instruments such as the Central Bank of Nigeria Act 2007, the Banks and Other Financial Institutions Act 2020, and the Secured Transactions in Movable Assets Act

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[3] Mark Y Tampuri, 'Digital Lending in Emerging Economies: The Nexus between Financial Innovation and Consumer Protection' (2023) 7 American Journal of Finance and Accounting 147.

[4] S Sassi and A Gasmi, 'The Effect of Enterprise and Household Credit on Economic Growth: New Evidence from European Union Countries' (2014) 39 Journal of Macroeconomics 226 < Journal of Macroeconomics | Vol 39, Part A, Pages 1-232 (March 2014) | ScienceDirect.com by Elsevier> accessed 28 March 2025.

[5] C Nwagbara, 'The Concept of Security as a Panacea in the Hands of the Creditor – a Myth or Reality?' (2014) Journal of Law, Policy and Globalization <https://www.iiste.org/Journals/index.php/JLPG/article/view/13783> accessed 1 January 2025.

[6] O Balogun, 'Sustainable Development Goals (SDGs) and the Challenges of Poverty Reduction in Nigeria' (2023) 16 (2) African Journal of Politics and Administrative Studies 682 < http://dx.doi.org/10.4314/ajpas.v16i2.35> accessed 28 March 2024.

2017, Credit Reporting Act, 2017, Federal Competition and Consumer Protection Act, 2018, The Federal Competition and Consumer Protection Commission (FCCPC) Interim Regulatory Framework for Digital Lending, 2022 and the Lagos State Consumer Protection Agency Law, 2012

The paper proposes a series of reforms to Nigeria's legal framework intended to cultivate a sustainable consumer credit system that harmonizes economic growth with consumer protection. It advocates for the establishment of a comprehensive regulatory framework that equitably balances creditor rights with consumer protections, promotes responsible lending practices, and aligns with international standards. The study concludes with actionable legal and regulatory recommendations aimed at enhancing Nigeria's consumer credit system and facilitating long-term economic sustainability.

This paper argues that reforming Nigeria's consumer credit laws is not merely a regulatory necessity but a cornerstone for achieving sustainable development. By identifying gaps, and proposing evidence-based reforms, the study aims to contribute to Nigeria's journey toward a resilient and inclusive economy.

This paper critically examines the interplay between consumer credit regulation and economic sustainability in Nigeria, proposing actionable pathways to align its financial ecosystem with global best practices. Section 2 reviews existing literature on consumer credit's role in economic development and identifies gaps in Nigeria's regulatory approach. Section 3 analyzes the current legal framework, highlighting systemic weaknesses such as inadequate consumer protections and unregulated digital lending. Section 4 draws comparative insights from the United States' Fair Credit Reporting Act, 1970 and Fair Debt Collection Practices Act, 1977 emphasizing transparency and accountability. Finally, Section 5 proposes reforms, including a unified Consumer Credit Act, enhanced oversight of fintech platforms, and financial literacy initiatives, to foster inclusive growth and long term stability. By bridging these gaps, Nigeria can transform its credit system into a catalyst for equitable development.

2.0 CONCEPTUAL CLARIFICATION

2.1 Historical Evolution of Consumer Credit

The necessity for consumer credit facilities stems from the inability of individuals to make immediate payments for goods and services required for personal or familial use. Historically, this inability was often perceived as an indicator of poverty, leading to societal stigmatization of debtors.[7] During the 18th and 19th centuries, there was a prevailing cultural attitude that looked down upon the use of credit, especially among the affluent and middle-class individuals.[8] This disdain for credit was deeply ingrained in the cultural values of the time and was seen as a reflection of one's character and social standing.[9]

Before the introduction of modern currency systems, early forms of credit in Nigeria involved the borrowing of commodities that served as local currencies.[10] These commodities included brass rods, manilas, copper wires, and cowries.[11] The establishment of banking institutions in Nigeria around 1892 marked the beginning of a more structured financial system.[12] However, the development of consumer credit products was not a priority during this period due to the limited number of banks in operation. The deregulation of the financial sector in later years led to the establishment of numerous commercial and merchant banks, fostering intense competition among them. This competition eventually spurred the introduction of new consumer credit products.[13]

2.2 Conceptual Framework: Definitions and Key Concepts

There is no consensus regarding the definitions of 'consumer,' 'credit,' and 'security,' Section 32 of the Consumer Protection Council Act 2004 broadly defines a consumer as an individual who engages in the

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[7] E Essien, *Law of Credit and Security* (2nd edn, Toplaw Publishments Ltd Uyo 2012) 4.
[8] ibid.
[9] ibid.
[10] T Falola, *Nigeria and Britain: Exploitation or Development?* (Zed. Books Ltd London and New Jersey 1987) 14.
[11] ibid.
[12] F Monye, *Law of Consumer Protection* (Spectrum Books Ltd Ibadan 2003) 11.
[13] ibid.

production, utilization, maintenance, and disposal of goods and services.[14] This definition covers not only end-users but also individuals involved in intermediate stages of goods and services, such as maintenance and disposal.

In contrast, Section 167 of the Federal Competition and Consumer Protection Commission Act, 2018[15] narrows the scope by defining a consumer as any person who purchases or intends to purchase goods for personal use rather than for resale, excluding those who buy goods for use in the production or manufacture of other goods for sale, or anyone receiving a service.

Sykes and Walker[16] describe security as an interest held by a creditor in a debtor's property, granting the creditor specific rights over that property to ensure the fulfillment of the debtor's obligations. This definition shows the proprietary nature of security, where creditors acquire rights over collateral to lessen lending risks. Section 189 of the English Credit Act, 2006[17] provides further clarity by listing legal instruments that constitute security, including mortgages, charges, pledges, bonds, debentures, indemnities, guarantees, bills, notes, or other rights provided by the debtor to secure their obligations under an agreement. In essence, security involves the debtor granting the creditor certain proprietary rights over an asset to guarantee repayment of a loan or credit facility, which can be revoked once the terms of the agreement are met. These definitions show that the debtor grants the creditor proprietary rights over an asset (tangible or intangible) as a guarantee for repayment, with these rights typically dissolving upon full performance of the contractual obligations.

In Nigeria, the term 'consumer' lacked a statutory definition until the enactment of the Industrial Promotion Act 1979, which defined it as any person, including manufacturers, who purchases goods from

[14] Consumer Protection Council Act, Cap 25, 2004 Laws of the Federation of Nigeria s32
[15] Federal Competition and Consumer Protection Act 2018, s 167.
[16] E Sykes, S Walker, *The Law of Securities* (The Law Book Company Limited Austria 1993) 13.
[17] Consumer Credit Act 2006 (UK), s 189(1).

wholesale or retail traders.[18] This definition was further expanded by the Consumer Protection Council Act 2004, which described a consumer as an individual who purchases, uses, maintains, or disposes of products or services.[19]

The term consumer is equated with a citizen, and consumer interest arises when individuals engage in exchange relationships with institutions such as hospitals, libraries, and government agencies, as well as with private businesses.[20] Consumers are categorised into two distinct types: the personal consumer, who acquires goods or services for personal, household, or gifting purposes, and the organisational consumer, who purchases for institutional or business use.[21] Also, a consumer is defined as a natural person who purchases, leases, or receives consumer products, services, or credit.[22]

The term 'consumer credit' refers to credit facilities extended to individuals for personal use, rather than for business or commercial purposes.[23] Unlike secured loans such as mortgages, consumer credit typically does not require collateral and is used to finance personal expenses, including education, healthcare, or household needs. This form of credit is distinct from business loans, as it is tailored to meet the financial requirements of individual consumers rather than enterprises.[24]

2.3 The Role of Consumer Credit in Economic Development

Consumer credit is important in driving economic growth and reducing poverty. Access to credit is crucial for the success of developing economies like Nigeria.[25] Yet, the challenge of accessing credit, especially for those

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[18] Industrial Promotion Act, 1979, Laws of the federation of Nigeria Cap. 181 s10.

[19] Consumer Protection Council Act, 2004 s25.

[20] George S Day and David A Aaker, 'Marketing Education: A Guide to Consumerism' (1970) 34 Journal of Marketing 12.

[21] Leon Schiffman and Leslie Kanuk, *Consumer Behaviour* (9th edn, Pearson Prentice Hall 2007) 14.

[22] Ayo Adediran, *Psychology of Advertising and Consumer Behaviours* (Fola and Associates 1992) 12.

[23]MR Neifeld, 'What Consumer Credit Is' (1938) 196 The ANNALS of the American Academy of Political and Social Science 63.

[24] ibid.

[25] (n 3).

without sufficient collateral, remains a major obstacle to their growth and sustainability. Secured credit systems are vital in safeguarding lenders' investments and ensuring the stability of financial markets [26]

During periods of financial instability, many individuals resort to borrowing as a strategy to manage unpredictable income levels.[27] This practice becomes especially common during economic downturns, when access to credit, despite its often high costs, can provide a crucial lifeline.[28] A significant portion of borrowers in Nigeria who are unable to secure credit from formal financial institutions often turn to informal lenders to meet their financial needs. FinTech-driven digital lenders have emerged which operate under regulatory oversight by the Central Bank of Nigeria (CBN) despite not being formal financial institutions. Platforms like Branch, FairMoney, PalmCredit, and Renmoney use alternative data (e.g., mobile phone usage, transaction history) to assess creditworthiness, bypassing traditional collateral requirements.[29] This informal lending provides a more accessible avenue for individuals who work in the informal economy and may not meet the stringent requirements imposed by formal lenders, such as proof of steady income or collateral[30]

2.4 Global Perspectives on Financial Inclusion and Consumer Credit

The European Union (EU) has consistently advocated for a market-driven strategy to promote financial inclusion, grounded in the belief that affordable credit can serve as a powerful tool for fostering both financial and social inclusion.[31] The European Union has a comprehensive legal

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[26] Artur Zhavoronok and others, 'The Role of the Credit Services Market in Ensuring Stability of the Banking System.' (2022) 12 International Journal of Safety & Security Engineering < https://doi.org/10.18280/ijsse.120602> accessed 12 April 2025.

[27] V Guerrieri and G Lorenzoni, 'Credit Crises, Precautionary Savings, and the Liquidity Trap' (2017) 132 (3) The Quarterly Journal of Economics 1427 < https://doi.org/10.1093/qje/qjx005> accessed 28 March 2025.

[28] ibid.

[29] Abiola Babajide, 'The Relationship Between the Informal and Formal Financial Sector in Nigeria: A Case Study of Selected Groups in Lagos Metropolis' (2011) 1(10) International Journal of Research in Computer Application and Management 24 < Babajide A. A 2.pdf> accessed 28 March 2025.

[30] ibid.

[31] Guido Comparato, 'The Design of Consumer and Mortgage Credit Law in the European System', *Consumer debt and social exclusion in Europe* (Routledge 2016)

framework for consumer credit including Directive 2008/48/Ec of The European Parliament and of the Council of 23 April 2008 on Credit Agreements for Consumers and theDirective 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments

This outlook views access to credit not merely as an economic mechanism but as a means to empower marginalized groups and integrate them into the broader financial system. A similar approach was adopted in post-apartheid South Africa with the enactment of the National Credit Act 34 of 2005, where credit was envisioned as a social safety net to address historical inequalities and support economic participation among previously disadvantaged communities.[32] Likewise, in the United States of America (USA), the Community Reinvestment Act of 1977 embodies this philosophy by encouraging financial institutions to meet the credit needs of low and moderate income neighborhoods, thereby promoting equitable access to financial resources.[33]

2.5 Consumer Credit and Sustainable Development Goals (SDGs)

The concept of sustainable development, as outlined in the United Nations' Sustainable Development Goals (SDGs), stresses the importance of fostering economic growth that is inclusive, equitable, and environmentally sustainable. The United Nations' Sustainable Development Goals (SDGs) provide a critical framework for addressing systemic inequalities and fostering inclusive economic systems. This paper aligns explicitly with SDG 8 (Decent Work and Economic Growth) and SDG 10 (Reduced Inequalities), which emphasize equitable access to financial resources, consumer protection, and sustainable economic stability.

SDG 8 advocates for 'sustained, inclusive, and sustainable economic growth' through policies that promote financial inclusion and

[32] Deborah James, 'Money from Nothing: Indebtedness and Aspiration in South Africa', *Money from Nothing* (Stanford University Press 2014).
[33] ibid.

access to affordable credit.[34] The UN's 2030 Agenda highlights the role of consumer credit in empowering individuals and micro-enterprises to invest in income-generating activities, education, and healthcare, thereby stimulating aggregate demand and productivity.[35] In Nigeria, equitable access to credit is indispensable for bridging income disparities and unlocking economic potential.[36]

SDG 10 aims to reduce inequality within and among countries by eliminating discriminatory financial practices and ensuring marginalized groups participate in economic opportunities.[37] Unequal access to credit perpetuates socioeconomic divides, particularly for women, rural populations, and small businesses in developing economies. This exclusion contravenes SDG 10's principle of creating social, economic, and political inclusion for all.

Consumer credit, as a financial mechanism, has the potential to significantly support these goals by enabling individuals and businesses to access resources necessary for economic activities. However, the lack of a strong legal and regulatory framework for consumer credit in Nigeria hinders its ability to contribute effectively to sustainable development.[38]

Sustainable development requires systems that balance economic growth, social equity, and environmental stewardship. Consumer credit, when well-regulated, can catalyze this balance by empowering

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[34] United Nations (UN), 'Review of SDG Implementation and Interrelations among Goals. Discussion on SDG 8–Decent Work and Economic Growth' <https://sustainabledevelopment.un.org/content/documents/23844BN_SDG_8_Decent_work.pdf> accessed 28 February 2025.

[35] ODDS Cf, 'Transforming Our World: The 2030 Agenda for Sustainable Development' [2015] United Nations, New York. <https://sdgs.un.org/2030agenda> accessed 28 February 2025

[36] Iwa Kuchciak, 'Financial Education and Banking Inclusion during Pandemic Period' (2023) 15 Journal of Intercultural Management 249.

[37] 'Reduce Inequality within and among Countries - United Nations Sustainable Development' (United Nations) <https://www.un.org/sustainabledevelopment/inequality/> accessed 28 February 2025

[38] ibid.

marginalized groups and reducing poverty.[39] For instance, the World Bank highlights that access to credit correlates with increased productivity, job creation, and GDP growth in developing economies.[40]

3.0 EXAMINING THE LEGAL FRAMEWORK FOR CONSUMER CREDIT IN NIGERIA

This examines the legal framework for consumer credit in Nigeria, focusing on the key legislative instruments and regulatory bodies that govern the credit landscape. The section critically analyses the strengths and weaknesses of these laws, highlighting their implications for economic stability and sustainable development. Specifically, it evaluates the Central Bank of Nigeria Act, 2007, the Banks and Other Financial Institutions Act, 2020, the Secured Transactions in Movable Assets Act, 2017, and the Credit Reporting Act, 2017. Additionally, judicial interpretations of money lending laws, as seen in several decided cases further reveal challenges that aggravate the vulnerabilities of consumers and lenders alike. The discussion identifies significant gaps in the legal framework, such as the lack of a comprehensive consumer credit law, inadequate consumer protection measures, weak regulation of non-traditional lenders, and ineffective debt collection practices. These gaps hinder the development of a sustainable consumer credit system in Nigeria.

3.1 Current Legal Landscape For Regulating Consumer Credit In Nigeria

Nigeria's legal system encompasses a variety of statutes addressing credit securities and consumer credit, establishing regulatory frameworks and institutions to oversee secured credit and consumer services. This section critically examines key legislative instruments and regulatory bodies that shape the credit landscape in Nigeria, with a focus

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[39] Yao Wang, 'What Are the Biggest Obstacles to Growth of SMEs in Developing Countries?–An Empirical Evidence from an Enterprise Survey' (2016) 16 Borsa Istanbul Review 167.

[40] ibid.

on their implications for economic stability and sustainable development. The laws to be examined are:

a) Central Bank of Nigeria Act, 2007
b) Central Bank of Nigeria's Consumer Protection Regulations (2016)
c) Banks and Other Financial Institutions Act, 2020
d) Secured Transactions in Movable Assets Act, 2017
e) Credit Reporting Act, 2017
f) Federal Competition and Consumer Protection Act, 2018
g) The Federal Competition and Consumer Protection Commission (FCCPC) Interim Regulatory Framework for Digital Lending, 2022
h) The Lagos State Consumer Protection Agency Law, 2012

3.1.1 The Central Bank Of Nigeria Act, 2007

The CBN Act, 2007[41] establishes the legal framework for Nigeria's central banking system, focusing on banking operations and systemic financial oversight. Section 2(d)[42] of the Act mandates the CBN to promote a sound financial system, which indirectly relates to credit markets in Nigeria. Also, Section 57 empowers the CBN to license and regulate credit bureaus to collect and share credit information.[43] Section 45 further allows the CBN to set reserve requirements, influencing banks' liquidity and lending capacity.

It is evident that the Act possesses little consumer protection mechanisms in credit transactions. The Act lacks provisions to regulate predatory lending practices, enforce fair interest rates, or mandate transparency in credit terms particularly in respect of hidden fees. While Section 57 requires banks to check credit information for loans exceeding ₦1 million, this threshold excludes smaller loans typically accessed by low-income consumers, leaving them vulnerable to exploitation by informal lenders. The Act does not establish a mechanism for resolving

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[41] Central Bank of Nigeria Act, 2007.
[42] ibid s2.
[43] Ibid s57.

consumer complaints therefore forcing borrowers to rely on protracted litigation to resolve their disputes.

There is also an overemphasis on Collateral-Based Lending in the Act. Section 29(1)(b) permits the CBN to grant advances against collateral such as government securities, gold, or warehouse receipts. Section 34(d) further prohibits unsecured lending except under strict conditions. The Act reinforces a collateral centered credit culture, disadvantaging borrowers in the informal sector. The Act does not encourage alternative credit worthiness means (e.g., cash flow breakdown, mobile transaction histories) to expand access for underprivileged borrowers.

3.1.2 The Central Bank Of Nigeria's Consumer Protection Regulations (2016)

The Consumer Protection Framework issued by the Central Bank of Nigeria (CBN) in 2016 provides a comprehensive set of laws to safeguard financial consumers, including those engaging in credit transactions. The regulation addresses key areas like transparency, dispute resolution, and responsible lending.

Section 2.2.3 provides for responsible lending. Financial Institutions (FIs) must conduct creditworthiness assessments and provide credit counseling to prevent over-indebtedness. The regulation however lacks specific metrics to assess borrowers' repayment capacity.

Section 2.3.1 provides for contract terms. It mandates that contracts must clearly disclose fees, risks, and terms in simple language. Also, section 2.3.2 provides that consumers must be notified of changes to terms, such as interest rate hikes. The regulation however does not specify minimum notice periods for term variations (e.g., rate increases)

There are also key provisions for dispute resolution and redress mechanisms. Section 2.7 provides that FIs must establish multiple complaint channels and resolve disputes within CBN-stipulated timelines. Section 2.7.3 provides for redress to consumers. It provides that FIs must compensate consumers for losses due to errors or fraud. There is however no established timeline for credit disputes. The regulation does not set specific resolution periods for credit-related complaints.

3.1.3 The Banks And Other Financial Institutions Act, 2020

The Banks and Other Financial Institutions Act (BOFIA) 2020[44] is a comprehensive legislation that regulates banking and other financial institutions in Nigeria. The Act primarily focuses on the licensing, regulation, and supervision of banks and financial institutions, it also contains provisions that are relevant to consumer credit.

Section 22 requires banks to display their lending and deposit interest rates at their offices and on their websites. This provision is intended to promote transparency in the pricing of financial products. Section 19 restricts banks from granting unsecured advances, loans, or credit facilities without prior approval from the CBN. It also limits the amount of unsecured credit that can be granted to directors, significant shareholders, and employees. This provision affects consumer credit by limiting the amount of unsecured credit that can be extended to individuals.

Section 30 empowers the CBN to issue regulations and guidelines to protect the interests of consumers of financial products and services. This includes promoting competition and ensuring responsible conduct by financial institutions. This provision is relevant to consumer credit as it gives the CBN the authority to regulate practices that affect consumers. However, the Act does not specify the types of consumer protections that should be implemented, such as prohibitions on unfair contract terms or mandatory grievance redress mechanisms. The lack of specific consumer protection measures in the Act leaves consumers exposed to unfair practices, such as hidden fees, excessive interest rates, and aggressive debt collection practices.

Chapter E of the Act establishes the Special Tribunal for the Enforcement and Recovery of Eligible Loans. The Tribunal has jurisdiction over debt recovery cases involving loans of at least Twenty-

[44] Banks and Other Financial Institutions Act, 2020.

Five Million Naira (₦25,000,000) or such other amount as may be prescribed by the CBN.
While this provision facilitates the recovery of loans, it does not address the specific challenges faced by consumers in debt recovery processes. For example, there are no provisions to protect consumers from harassment or unfair treatment by debt collectors.

3.1.4 The Secured Transactions In Movable Assets Act, 2017

The Secured Transactions in Movable Assets Act, 2017 (STMA Act)[45] is a significant piece of legislation in Nigeria aimed at facilitating access to credit by using movable assets as collateral. Section 2(1) of the STMA Act states that the Act applies to all security interests in movable assets created by an agreement that secures payment or the performance of an obligation. This includes consumer credit transactions where movable assets (e.g., vehicles, electronics, or household goods) are used as collateral.

Section 3 of the Act provides for the creation of a security interest through a security agreement between the grantor (consumer) and the creditor. Section 8 states that a security interest is perfected when a financing statement is registered in the National Collateral Registry. The registration of security interests ensures transparency and priority in the event of default. This is crucial for consumer credit, as it provides a clear legal framework for creditors to recover their loans.[46]

Section 23 of the Act establishes that the priority of security interests is determined by the order of registration. These priority rules are essential in consumer credit transactions, as they determine which creditor has the first claim to the collateral in the event of default. This is particularly relevant for consumers who may have multiple loans secured by the same asset.

Section 35 of the Act requires that all rights and duties under the Act be exercised in good faith and in accordance with reasonable

[45] Secured Transactions in Movable Assets Act, 2017.
[46] ibid s8.

commercial standards. Section 36 provides for the recovery of damages in case of a breach of duty. These provisions are crucial for ensuring that creditors act fairly and reasonably in their dealings with consumers. They provide a legal basis for consumers to seek redress in case of unfair treatment by creditors.

Section 40 of the Act allows creditors to repossess collateral in the event of default, provided they give the borrower and grantor a notice of default and intention to repossess. Section 45 requires creditors to give notice of sale to the borrower, grantor, and other creditors before selling the collateral. These provisions ensure that consumers are given notice before their collateral is repossessed or sold. This allows consumers an opportunity to rectify the default or negotiate with the creditor.

The National Collateral Registry (NCR), established under Part III of the STMAA 2017, is a central component of the Act. It serves as a public database for registering and accessing information on security interests in movable assets.[47] The NCR is established under the Central Bank of Nigeria (CBN) and is tasked with receiving, registering, and storing information on security interests in movable assets. The registry is responsible for registering financing statements and providing access to information on registered security interests. The registry creates a transparent and accessible system for lenders to verify the existence of prior security interests in movable assets. This reduces the risk of lending against over-encumbered assets.

3.1.5 The Credit Reporting Act, 2017

The Credit Reporting Act, 2017[48] establishes a framework for credit reporting in Nigeria, aiming to enhance access to credit, promote responsible lending, and protect consumer rights. The Act aims to facilitate access to credit and enhance risk management, Promote accurate,

[47] ibid s.10.
[48] Credit Reporting Act, 2017.

fair, and reliable credit information,[49]encourage responsible borrowing, discourage over-indebtedness, and facilitate credit information sharing.[50]

Section 3 provides that credit bureaus must maintain accurate and updated credit databases, investigate and correct inaccurate or incomplete information, issue credit reports without offering opinions on creditworthiness.

Section 7 provides that credit information can only be accessed for 'permissible purposes,' including evaluating credit applications, employment checks, debt collection, insurance underwriting. Consumers can file complaints about inaccurate credit information. Credit bureaus must resolve disputes within 10 working days or refer them to the CBN.[51]The dispute resolution process provides a mechanism for consumers to challenge errors and protect their creditworthiness. However, the 10-day resolution period may be insufficient for complex disputes.

Section 13 also provides that consumers must contest inaccuracies within 15 working days of receiving a credit report. The 15-day window might however be insufficient for consumers to gather evidence, especially those with limited resources.

3.1.6 The Federal Competition And Consumer Protection Act (FCCPA), 2018

The Federal Competition and Consumer Protection Act (FCCPA), 2018, is a comprehensive legislation aimed at promoting fair competition and protecting consumer rights in Nigeria. The FCCPA provides broad consumer rights that apply to consumer credit transactions. The FCCPA in Section 124 provides for a right to fair dealings. It prohibits undue influence, coercion, or unfair tactics in marketing, supply of goods/services, or enforcement of agreements. It

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[49] ibid s.1.
[50] ibid.
[51] Ibid s13

protects borrowers from predatory lending practices, such as misleading terms.

Section 127 prohibits unfair contract terms. It voids terms deemed unfair, unreasonable, or unjust, including those that are excessively one-sided or not brought to the consumer's attention. These provisions could invalidate abusive loan terms such as unilateral interest rate hikes or excessive penalties.

Sections 114–116 also provide for disclosure requirements. It mandates plain-language disclosure of terms and pricing for goods/services. This provision ensures borrowers receive clear information about loan terms.

3.1.7 The Federal Competition And Consumer Protection Commission (FCCPC) Limited Interim Regulatory/Registration .Framework For Digital Lending, 2022

The Federal Competition and Consumer Protection Commission (FCCPC) Limited Interim Regulatory/Registration Framework for Digital Lending, 2022 introduces vital measures to regulate digital lenders in Nigeria. Form DLG 001 provides that digital lenders must disclose their proposed interest rate regime and loan balance calculation methodologies. The guidelines do not impose interest rate caps or regulate fees (e.g., processing fees, late payment penalties). This allows lenders to charge exorbitant rates, potentially leading to predatory lending and debt traps.

Form DLG 001 ensures that lenders must confirm that apps do not access customers' call logs, contacts, or photos and lenders must affirm that they comply with data protection laws in Form 002. However, while the guidelines do not specify penalties for data misuse. Lenders may exploit personal data for aggressive debt recovery (e.g., public shaming via contacts).

The First Schedule provides for complaint resolution. Lenders must provide evidence of feedback and complaint resolution mechanisms. However, there are no requirements for response timelines, and processes. Consumers may face unresolved complaints, eroding trust in digital lending platforms.

Despite the existence of several laws and regulatory bodies governing consumer credit in Nigeria, significant gaps remain in the legal framework. These gaps hinder the development of a sustainable consumer credit system and pose challenges to economic stability. Nigeria's regulatory landscape for consumer credit is governed by fragmented statutes, each addressing isolated aspects without a cohesive strategy for sustainability.

The legal framework governing money lending and consumer credit in Nigeria has been the subject of judicial interpretation in several cases, revealing significant gaps and ambiguities. These gaps hinder the effective regulation of money lending practices and pose challenges to achieving sustainable development, particularly in ensuring fair access to credit and protecting vulnerable consumers from exploitative practices.

3.1.8 The Lagos State Consumer Protection Agency Law

The Lagos State Consumer Protection Agency Law establishes a framework for protecting consumers from unfair trade practices, including mechanisms for dispute resolution and redress. . The law defines a consumer broadly as any person who buys goods or hires services in Section 50. However, services are not explicitly defined to include financial products like loans or credit facilities. It covers unfair trade practices, defective products, and services but does not explicitly mention credit services or financial products. This creates ambiguity in applying protections to credit transactions.

There are complaint redress mechanisms in the law. The Agency can resolve complaints through negotiation, mediation, or court action as provided for in Sections 6 and 12–14. Section 13 provides that complaints related to defective goods prompt product testing, but no corresponding process exists for credit disputes. There are no specialized procedures for credit disputes and there is a bias towards physical goods. The Ogun State has also followed suit by passing its Consumer Protection Bill [52]

In *Afolayan v. Adimoha*,[53] the Court of Appeal adopted a broad interpretation of the term 'money lender.' The court held that a money lender includes any person whose business is money lending, regardless of whether they own property or derive income from other sources, individuals or entities that advertise or hold themselves out as money lenders, whether acting as principals or agents, persons who lend money at high interest rates, even if lending is not their primary business. However, the court held that occasional lending to friends, family, or acquaintances does not qualify an individual as a money lender. To be classified as such, the lender must demonstrate systematic, repeated, and continuous engagement in money lending as a business.

In *Ojikutu v Agbonmagbe Bank Ltd*,[54] the court held that the Moneylenders Act applies to individuals who lend money at interest, even if they are not habitual money lenders. The court rejected the argument that occasional lenders should be exempt from regulation, emphasizing that the Act's primary purpose is to protect borrowers from exploitative practices, regardless of the lender's frequency of operation.

The licensing requirements under the Moneylenders Law further expose gaps in the regulatory framework. Applicants for a money lending license must demonstrate good character and suitability, as determined by a magistrate. However, the subjective nature of this assessment, as seen in *Re Marcus O. Ojaero*,[55] raises concerns about fairness and transparency. In this case, the magistrate denied the applicant's license renewal despite his prior compliance, citing objections from the police. This decision

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[52] News Agency of Nigeria, 'Ogun Lawmakers Pass Consumer Protection Bill' (4 October 2024) <https://gazettengr.com/ogun-lawmakers-pass-consumer-protection-bill/> accessed 10 April 2025.
[53] *[2020] 7 N.W.L.R. (Pt 461) 464.*
[54] *[1966] NCLR 246.*
[55] *[1952] 20 NLR 77.*

illustrates the potential for arbitrary enforcement and the lack of clear guidelines for license issuance and renewal.

Another critical gap lies in the enforcement of money lending contracts. The law mandates that all contracts be documented and signed before funds are disbursed or security is provided. Failure to comply renders the contract unenforceable, as demonstrated in *Oyebode v Oloyede*.[56] The court emphasized that any action related to the loan, such as providing security, is presumed to have occurred before the funds were lent unless proven otherwise. This presumption, while protective of borrowers, places an undue burden on lenders to prove compliance, potentially discouraging legitimate lending activities.

Moreover, the absence of a written contract does not automatically invalidate a money lending agreement. Oral contracts remain enforceable, provided they include essential terms such as the loan amount, interest rate, and repayment dates. However, in *Kasumu v Baba-Egbe*,[57] the court ruled that a contract was unenforceable due to the lender's failure to maintain proper records as required by the Moneylenders Ordinance. This case shows the importance of record-keeping and transparency in money lending transactions.

The prohibition of misleading practices by money lenders, such as concealing material facts or falsifying loan terms, is another area requiring reform. While penalties exist for such offenses, enforcement remains weak, as evidenced by the prevalence of exploitative lending practices. Strengthening these provisions and ensuring their consistent application is essential to safeguarding consumer rights and promoting financial inclusion.

The gaps identified in Nigeria's money lending laws have significant implications for sustainable development. Inadequate regulation of consumer credit undermines efforts to reduce poverty (SDG 1) and promote decent work and economic growth (SDG 8). Exploitative lending practices aggravate income inequality and hinder access to affordable credit, particularly for low-income individuals and small

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[56] *[1999] 2 NWLR (Pt 592) 523.*
[57] *[1964] 8 ENLR 1.*

businesses. Addressing these gaps through comprehensive law reform is crucial to fostering a fair and inclusive financial system that supports sustainable development goals.

3.2 Key Gaps In Nigeria's Legal Framework For Consumer Credit

Nigeria's legal framework for consumer credit is fragmented and inadequate, posing significant challenges to the development of a robust and inclusive credit system. The absence of a unified regulatory framework, coupled with weak consumer protection measures and ineffective debt collection practices, has created an environment where both lenders and borrowers face uncertainties and risks. These gaps impede access to credit, particularly for low-income individuals, and weaken efforts to attain sustainable economic growth. This section examines some of the key gaps in Nigeria's legal framework for consumer credit.

3.2.1 Lack Of A Comprehensive Consumer Credit Law

One of the most significant gaps in Nigeria's legal framework is the absence of a comprehensive consumer credit law. While various laws such as the, the Central Bank of Nigeria Act, and the Secured Transactions in Movable Assets Act address different aspects of credit transactions, they do not provide a unified framework for consumer credit. This fragmentation creates inconsistencies and loopholes that can be exploited by unscrupulous lenders, leading to unfair practices.

3.2.2 Inadequate Consumer Protection Measures

Another critical gap is the lack of adequate consumer protection measures in Nigeria's credit laws. While the Federal Competition and Consumer Protection Commission (FCCPC) Act (2018) prohibits unfair practices,[58] it lacks specific provisions for credit transactions. For example, there are no mandatory disclosure requirements for interest rates or penalties, leaving borrowers vulnerable to exploitative terms. This lack of

[58] Federal Competition and Consumer Protection Act, 2018 s 127, 129.

transparency can lead to misunderstandings and disputes between lenders and borrowers, undermining trust in the financial system.

3.2.3 Ineffective Debt Collection Practices

Debt collection practices in Nigeria are another area of concern. Many debt collection agencies operate without proper oversight, leading to unethical practices such as intimidation, threats, and public shaming of debtors. These practices not only harm consumers but also undermine the stability of the financial system by eroding trust and confidence in credit markets.

Despite the Federal Competition and Consumer Protection Commission (FCCPC) Interim Regulatory Framework for Digital Lending, 2022, which prohibit harassment, false threats, and unethical recovery tactics, enforcement remains weak. Many lenders, particularly digital loan apps and unregulated microfinance institutions, continue to engage in aggressive debt recovery practices, including public shaming and unauthorized contact with third parties.[59]

Debt collection in Nigeria is often marred by harassment and unethical tactics, as evidenced in *Oceanic Securities Int. Ltd v Balogun & Ors*,[60] where the court condemned police involvement in civil debt recovery.

3.3 Legal Framework For The Administration Of Consumer Credit In The United States Of America

In the United States of America (USA), consumer protection laws are established at both federal and state levels to shield individuals from defective products and fraudulent business practices. The term 'consumer' is defined differently across various statutes, depending on the goods or services regulated. For example, the Uniform Commercial Code (UCC) defines a 'consumer' as an individual engaging in transactions for personal,

[59] (n3).
[60] *[2012] LPELR-9218.*

family, or household purposes.[61] State laws, such as those in Texas, may extend the definition to include partnerships and corporations.[62]

This paper focuses on the Fair Credit Reporting Act 1970 (FCRA), which requires consumer reporting agencies to implement reasonable procedures to ensure the accuracy and fairness of credit information. The FCRA outlines consumer rights, permissible uses of credit reports, and the responsibilities of those who collect and provide consumer information.

The FCRA grants consumers several rights regarding their credit reports. Consumers can access all information in their credit reports, including its sources, and are entitled to their credit scores.[63] They may request one free credit report annually from each nationwide consumer reporting agency.[64]

Consumers also have the right to know who has accessed their credit reports for employment purposes in the past two years or for other purposes within the past year.[65] They can dispute incomplete or inaccurate information in their files. Upon receiving a dispute, the consumer reporting agency must investigate and update or remove the information within 30 days. The agency must also notify the information provider of the dispute and share relevant details.[66]

During the investigation, the agency must review all information provided by the consumer. If the dispute is deemed frivolous or lacks sufficient evidence, the agency may terminate the investigation and notify the consumer within five business days. If the information is found to be inaccurate, incomplete, or unverifiable, it must be removed from the consumer's file.[67]

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61 U.C.C. s. 5481(4) (2012).
62 Texas Business & Commercial Code s. 17.45(4).
63 15 USC s. 1681g(a) (2011).
64 ibid s. 1681j(a).
65 ibid s. 1681j(f).
66 ibid.
67 ibid.

The agency must provide written notice of the investigation results within five days, including a revised credit report, a description of the procedures used, and information about the consumer's right to add a dispute statement or request notification of deletions to specified parties.[68]

The Fair Credit Reporting Act 1970, mandates that consumer reporting agencies ensure the accuracy and completeness of credit information. They must investigate disputes and notify requesters of significant address discrepancies. Agencies are also required to release credit reports only for permissible purposes outlined in the Act.[69]

Prospective users of credit information must identify themselves, certify the purpose of the request, and confirm that the information will not be misused. For investigative consumer reports, agencies must inform consumers of the investigation's scope and the possibility of such a report being generated.[70]

For employment-related reports, agencies must verify the accuracy of public record information and notify consumers if such information is included. They must also ensure that any public information affecting employment prospects is complete and up-to-date.[71]

Businesses and organizations that provide information to credit files must ensure its accuracy. While reporting is voluntary, furnishers must notify consumers in writing if negative information is reported.[72] They are prohibited from reporting information they know or suspect to be inaccurate or resulting from identity theft, unless confirmed as correct.

Furnishers must investigate disputes and report findings to consumer reporting agencies. If information is found to be incorrect, they must notify all relevant agencies and provide accurate details.[73] Consumers

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[68] ibid.
[69] ibid s. 1681c(h).
[70] ibid 1681e(a).
[71] ibid s. 1681k.
[72] ibid s. 1682(a)(7).
[73] ibid s. 1682(a)(1).

can also dispute information directly with furnishers, who must investigate and respond within a specified timeframe.[74]

Consumer reports may only be used for purposes authorized by the FCRA. Common users include credit grantors, insurers, employers, collection agencies, and government bodies. Users must comply with FCRA requirements if they take adverse actions based on credit reports.[75]

In such cases, users must notify consumers of the adverse action and provide details of the credit score used, including its range, influencing factors, creation date, and the score provider's name.[76]

4.0 LAW REFORM RECOMMENDATIONS

The identified deficiencies in Nigeria's consumer credit framework necessitate decisive legislative and institutional reforms. To address the gaps in Nigeria's legal framework for consumer credit and promote economic stability, there is a need to enact a dedicated Consumer Credit Act to remedy the critical absence of a unified legal structure. Nigeria urgently requires comprehensive legislation specifically governing consumer credit. This Act must establish a solid regulatory foundation, for consumer credit. Its provisions must mandate transparency requirements which requires lenders to provide comprehensive, clear disclosure of all loan terms, all associated fees, penalty structures, and repayment schedules in plain language prior to agreement execution.

The Act must also provide for the formal regulation of non-traditional lenders and also impose stringent licensing requirements and operational guidelines on digital lending platforms and other non-bank credit providers. This will help close the regulatory loophole enabling exploitative practices.

It is recommended that the act establishes independent credit regulatory authority empowered with exclusive jurisdiction over consumer credit disputes, enforcement of compliance, and imposition of

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[74] ibid.
[75] ibid s. 1681a(k).
[76] ibid.

sanctions. This will provides a dedicated dispute resolution mechanism absent under the current fragmented system in Nigeria.

It is further recommended that extant consumer protection provisions are strengthened by amendment. By mirroring the FCRA, explicit, actionable safeguards against unfair credit practices are essential. Some of these protections include mandating uniform, pre-contractual disclosure, which ensuring borrowers fully understand their obligations. There is also the need for explicit prohibition of unfair contract terms by banning clauses that create significant imbalances in parties' rights and obligations to the detriment of the consumer.

It is recommended that a rigorous debt collection system is implemented to combat the widespread unethical recovery tactics. The legal framework must incorporate stringent, enforceable rules governing debt collection, drawing from best practices like the US Fair Debt Collection Practices Act (FDCPA). Explicitly prohibiting harassment, intimidation, threats of violence, false representations, public shaming, and communication at unreasonable times or frequencies. There is also a need for strict enforcement and penalties mandating severe consequences for violations, including substantial fines and license revocation for lenders and collection agencies.

Complementing legal reforms, sustained governmental investment in consumer financial education is crucial. Programs must specifically target vulnerable populations, including low-income earners and rural communities, equipping them with the knowledge to understand credit terms, rights, responsibilities, and risks. This promotes informed decision-making and reduces susceptibility to exploitation.

5.0 CONCLUSION

The relationship between consumer credit and economic stability in Nigeria is complex and multifaceted. While consumer credit has the potential to drive economic growth and promote financial inclusion, the absence of a comprehensive legal framework poses significant challenges to sustainable development. The current legal framework is fragmented and lacks the robust consumer protections found in more developed jurisdictions, leaving consumers vulnerable to exploitation and undermining trust in the financial system.

To address these challenges, Nigeria must enact a comprehensive consumer credit law that provides a unified framework for the regulation of consumer credit transactions. This law should include provisions for transparency, fairness, and accountability in credit agreements, as well as robust consumer protection measures. It should also address the regulation of non-traditional lenders, such as digital lending platforms, and establish clear guidelines for debt collection practices.

In addition to legal reforms, there is a need to promote financial literacy among consumers to ensure that they have the knowledge and skills needed to make informed financial decisions. By implementing these reforms, Nigeria can create a sustainable consumer credit system that harmonizes economic growth with consumer protection, promotes responsible lending practices, and aligns with international standards.

Nigeria's pursuit of economic stability hinges on reforming its consumer credit framework to align with sustainable development imperatives. By enacting a Consumer Credit Act, regulating digital lenders, and institutionalizing ethical debt collection, Nigeria can foster inclusive growth, protect vulnerable populations, and build a resilient economy. These reforms will not only bridge existing legal gaps but also position Nigeria as a leader in sustainable financial governance in Africa.