BANK OF MAURITIUS

Additional Macroprudential Measures for the Banking Sector

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Introduction

The *Guideline on the Computation of Debt-to-Income Ratio for Residential Property Loans* provides for the debt-to-income ratio as a macroprudential measure for the purchase/construction of residential properties in Mauritius.

This document sets out *Additional Macroprudential Measures for the Banking Sector* on Risk-Weighted Assets, Additional General Provisions, and Loan-To-Value Ratio respectively.

The *Guideline on Standardised Approach to Credit Risk* and *Guideline on Credit Impairment Measurement and Income Recognition* correspondingly reflect the relevant macroprudential measures.

Purpose

The objective is to mitigate potential systemic risks to the Mauritian banking sector as a whole.

Authority

The *Additional Macroprudential Measures for the Banking Sector* (Additional Macroprudential Measures) are issued under the authority of section 100 of the Banking Act 2004 and section 50 of the Bank of Mauritius Act 2004.

Interpretation

"Bank of Mauritius" means the Bank of Mauritius established under the Bank of Mauritius Act 2004;

"bank" has the same meaning as in the Banking Act 2004;

"IRS" means Integrated Resort Scheme;

"PDS" means Property Development Scheme;

"RES" means Real Estate Scheme;

"self-employed individual" means an individual who does not have a contract of employment and who derives income from any trade, business or profession in his own name or also from rental of property. [1]

[1] Inserted on 29 June 2022 *(Ref: Circular Letter 10.06.2022)*

SECTION 1: RISK-WEIGHTED ASSETS [2]

1. To address the systemic risk posed by both the stock of existing loans and new loans in the construction sector, a bank shall risk-weight its fund-based and non fund-based credit facilities secured by residential property and commercial real estate **granted for the purpose of purchase/construction,** as detailed hereunder.

<u>Claims secured by residential property</u>

2. Claims secured by residential property [excluding loans under the PDS (comprising IRS/RES)], except for past due loans [3]

Claims secured by residential property for purchase/construction in Mauritius [excluding loans granted under the PDS – comprising IRS/RES], except as set out in **paragraph 5 below** for past due loans, shall be risk-weighted as follows:

i. 35% risk weight for the portion of loans up to Rs10 million;
ii. 75% risk weight for the portion of loans greater than Rs10 million up to Rs20 million;
iii. 100% risk weight for the portion of loans exceeding Rs20 million,

subject to criteria as specified in **paragraph 35(a)-(f)** of the *Guideline for Standardised Approach to Credit Risk.*

3. Claims secured by residential property under the PDS (comprising IRS/RES), except for past due loans [4]

Claims secured by residential property for purchase/construction in Mauritius under the PDS (comprising IRS/RES), except as set out in **paragraph 5 below** for past due loans, that meet all the criteria in **paragraph 35(a)-(f**) of the *Guideline for Standardised Approach to Credit Risk* shall be risk-weighted as follows:

i. 35% risk weight for the portion of loans up to Rs5 million;
ii. 100% risk weight for the portion of loans greater than Rs5 million up to Rs12 million;
iii. 125% risk weight for the portion of loans exceeding Rs12 million.

4. Claims secured by residential property that do not satisfy all the criteria [5]

Claims secured by residential property for purchase/construction in Mauritius that do not satisfy all the criteria in **paragraph 35(a)-(f)** of the *Guideline on Standardised Approach to Credit Risk* shall be risk-weighted at 125%, except as set out in **paragraph 5 below** for past due loans.

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[2] Initial effective date: 1 July 2014
[3] Effective 31 March 2020: *COVID-19 measures*
[4] Inserted on 1 April 2022 *(Ref: COVID-19 measures 31.03.2020)*
[5] Inserted on 1 April 2022

5. Past due loans (claims secured by residential property)

In the case of loans secured by residential property for purchase/construction in Mauritius, when such loans are past due for more than 90 days, these loans (net of specific provisions) shall be risk-weighted as follows:

i. 100% risk weight for loans up to Rs5 million;
ii. 125% risk weight for loans greater than Rs5 million up to Rs12 million;
iii. 150% risk weight for loans exceeding Rs12 million.

Claims secured by commercial real estate

6. Claims secured by commercial real estate[6] for purchase/construction in Mauritius, except as set out in **paragraph 7 below** for past due loans, shall be risk-weighted as follows:

i. 100% risk weight for loans up to Rs75 million;
ii. 125% risk weight for loans exceeding Rs75 million.

7. Past due loans (claims secured by commercial real estate)

In the case of loans secured by commercial real estate for purchase/construction in Mauritius, when such loans are past due for more than 90 days, these loans (net of specific provisions) shall be risk-weighted as follows:

i. 125% risk weight for loans up to Rs75 million;
ii. 150% risk weight for loans exceeding Rs75 million.

Note:

- Banks shall stand guided by the *Guideline on Standardised Approach to Credit Risk* for relevant provisions.

- The above risk weights shall apply only to **claims secured by residential property and commercial real estate for the purpose of purchase/construction**. All other claims shall be governed by the requirements of the *Guideline on Standardised Approach to Credit Risk.*

[6] Includes loans extended for financing the buying and selling of residential properties with a view to making a profit in the transaction or for property development purposes.

SECTION 2: ADDITIONAL GENERAL PROVISIONS [7]

8. To ensure early provisioning against future credit losses due to rising corporate indebtedness and non-performing loans in some key sectors of the economy, a bank shall make additional general provisions over and above the provisions on standard credit in accordance with the requirements of the *Guideline on Credit Impairment Measurement and Income Recognition*, as detailed below:

Table 1: Additional General Provisions

Type of credit facility, extended to the Resident Segment of the following sectors:	**Macroprudential Provision**
Household – Housing	0.5%
Household - other than Housing	0.75%
Accommodation	1.0%
Construction (including commercial real estates)	1.0%

[7] Section 2 has been placed on hold temporarily, in accordance with the temporary suspension of the *Guideline on Credit Impairment Measurement and Income Recognition* with effect from 5 March 2020, in light of the COVID-19 pandemic.

SECTION 3: LOAN-TO-VALUE RATIO [8]

9. The maximum loan-to-value ratio for residential property loans shall be as follows:

(i) 80% of the value thereof for self-employed individuals and contractual employees; and

(ii) 100% of the value thereof for other individuals.

10. Banks may, on a case-to-case basis and depending on their risk appetite, apply a loan-to-value ratio higher than 80% for a self-employed individual where: [9]

(i) they have conducted a robust credit risk assessment and are satisfied with the track record and repayment capacity of the self-employed individual; and

(ii) the gross monthly income of the self-employed individual has, at a minimum, been at least equal to Rs100,000 over the last 12 months preceding the application for the residential property loan.

11. In the case of joint loans, the loan-to-value ratio to be applied shall depend on the main borrower servicing the debt. [10]

Bank of Mauritius
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[8] Introduced on 17 June 2021
[9] Inserted on 29 June 2022 *(Ref: Circular letter 10.06.2022)*
[10] Inserted on 29 June 2022 *(Ref: Circular letter 10.06.2022)*