



BANK OF MAURITIUS

**Guideline on the Computation of
Debt-to-Income Ratio for Residential Property Loans**

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Introduction

Banks have to maintain sound lending standards when granting credit facilities for the purchase/construction of residential properties. In this context, the debt-to-income (DTI) ratio is commonly used by banks in Mauritius as a microprudential measure to assess borrowers' repayment capability. The Bank of Mauritius (hereinafter referred to as the "Bank") is introducing the DTI ratio as a macroprudential measure in view of its concerns on the increase on the level of household indebtedness and to ensure that borrowers are not overleveraged whenever they borrow for the purchase/construction of a property. Further, the Bank also encourages banks to apply consistently their internal prudential DTI limits when granting credit facilities to other sectors.

Purpose

This document sets out the procedures and guidance to be followed by banks to determine borrowers' repayment capacity when granting credit facilities for the purchase/construction of residential properties in Mauritius.

Authority

This guideline is issued under the authority of Section 100 of the Banking Act 2004 and Section 50 of the Bank of Mauritius Act 2004.

Scope of Application

This guideline applies to all banks licensed under the Banking Act 2004.

Effective Date

This revised guideline shall come into effect on 17 June 2021.

Interpretation

In this Guideline,

“bank” has the same meaning as in the Banking Act 2004;

“borrower” means any party applying for a credit facility;

“credit facility” means any secured and/or unsecured fund-based facility;

“financial institution” has the same meaning as in the Banking Act 2004;

“fixed income” means income that is received on a regular and periodic basis including wages and salaries;

“residential property” means land bought for the purpose of future construction of a residential property, building, or tenement wholly or principally constructed, adapted or intended for human habitation;

“monthly repayment instalment” means the sum of the monthly repayment of the principal amount and interest rate on the credit facility; and

“variable income” means income which is not fixed and includes fee, overtime pay, perquisite, allowance, bonus, gratuity, commission or other reward or remuneration in respect of or in relation to the office or employment of an individual, and any fringe benefits.

Board and Senior Management Responsibilities

1. The board of directors of a bank shall as a minimum:-
 - a. establish, assess and approve the DTI limits that will apply to its borrowers when granting credit facilities for the purchase/construction of residential properties, as an integral part of the bank’s credit risk management policy;
 - b. review, at least once a year, the DTI limits applicable to credit facilities granted for the purchase/construction of residential properties; and
 - c. ensure, through audit and inspection, adherence to the DTI limits set out in the bank’s credit management policy.
2. A bank shall develop and implement information systems, procedures and techniques that accurately, identify, measure and monitor adherence to the DTI limits when granting credit facilities.
3. Although the prudential DTI limits apply only to credit facilities granted for the purchase/construction of residential properties, a bank may establish internal DTI limits to other sectors.

Debt-to-Income Ratio

4. DTI ratio is the percentage of a borrower's monthly gross income that goes towards paying his monthly total debt obligations.
5. A bank shall compute the DTI ratio of a borrower who is applying for credit facilities for the purchase/construction of residential properties in accordance with the following formula:

$$DTI = \frac{\textit{Total Monthly Debt Obligations}}{\textit{Gross Monthly Income}} \times 100$$

6. The total monthly debt obligations of a borrower shall consist of the sum of the monthly repayment instalments of all credit facilities¹ granted by financial institutions including those institutions not regulated by the Bank.

¹ Credit card facilities may be excluded

7. The gross monthly income of a borrower shall consist of:-
 - a. his monthly income, where the borrower earns a fixed income only;
 - b. not more than 70 per cent of the average of his monthly variable income over a minimum period of 12 months preceding the application for a credit facility, where the borrower earns a variable income only; or
 - c. his monthly income and not more than 70 per cent of the average of his monthly variable income over a minimum period of 12 months preceding the application for a credit facility, where the borrower earns both a fixed and variable income.

Prudential Limits²

8. A bank shall ensure that the DTI ratio for single or joint borrowers applying for the grant of credit facilities for the purchase/construction of residential property, does not exceed 50 per cent.
9. In case of joint applications consisting of two or more borrowers, who are applying for the grant of credit facilities for the purchase/construction of residential property, a bank shall determine the monthly repayment instalment of each borrower in a manner that is consistent with each borrower's monthly repayment capacity.

Declaration of Borrower

10. For the purpose calculating the DTI ratio of a borrower, a bank shall request a written declaration from the borrower, together with supporting documents, on: -
 - a. all outstanding amounts of credit facilities availed of by the borrower including details such as the types, outstanding amounts, monthly repayment instalments, applicable interest rates and tenures of the credit facilities; and
 - b. all fixed/variable income earned by the borrower over a minimum period of 12 months preceding the application for the credit facility.

Verification by the bank

11. At the time of applying for a credit facility for the purchase/construction of residential property, the bank shall conduct comprehensive checks to verify the accuracy of the declaration of the borrower(s) and consult the MCIB database to verify the level indebtedness of the borrower(s).

Exempt Facilities

12. The following categories of borrowers shall be exempted from the DTI limits but banks may apply their internal limits for such categories of borrowers: -

² Amended on 17 June 2021

- a. borrowers eligible for low cost housing projects promoted by Government;
- b. employees of banks applying for credit facilities for the purchase/construction of residential properties for their own occupation;
- c. borrowers applying for credit facilities for the purchase/construction of residential properties which are fully secured by deposits, Government of Mauritius and Bank of Mauritius Securities;
- d. a loan taken by a person which is guaranteed wholly or partly by Government under such scheme as the Minister of Finance may approve; and
- e. refinancing of credit facilities availed prior to the coming into effect of this guideline for the purchase/construction of a residential property from another financial institution subject to the condition that the new Debt-to-Income Ratio is not more favourable to the borrower(s) than the existing ratio.

Supervisory Review

- 13. The Bank will assess the processes, procedures and policies put in place by a bank to ensure conformity with the prudential DTI limits set out in this guideline.
- 14. The Bank may take appropriate regulatory action including imposing fines on banks which fail to adhere to the regulatory requirements of this guideline.

Bank of Mauritius
17 June 2021