BANK OF MAURITIUS

Guideline on
the Computation of Loan-to-Value Ratio
for Residential and Commercial Property Loans

October 2013
Revised January 2014
Revised September 2014

Contents

Introduction

Banks have to maintain sound lending standards when granting credit facilities for the purchase/construction of residential/commercial properties. In this context, loan-to-value (LTV) ratio has been adopted by banks in Mauritius as a microprudential measure as part of their credit risk management policies. LTV ratio helps to restrict losses in the event of default/decline in property prices by imposing a cap on the size of the loans relative to the value of the properties. The Bank of Mauritius (hereinafter referred to as the "Bank") is introducing maximum LTV limits as a macroprudential measure to discourage speculation, prevent excessive leverage and reduce systemic risk associated with the rapid expansion of credit in the construction sector. Further, the Bank also encourages banks to consistently apply their internal prudential LTV limits when granting credit facilities to other sectors.

Purpose

This document sets out the procedures and guidance to be followed by banks for determining the LTV limits when granting credit facilities for the purchase/construction of commercial/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 guideline shall come into effect on 1 January 2014.

Interpretation

In this Guideline,

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

"borrower" means any party applying for a credit facility;

"commercial property" means a building or land bought for the purpose of generating a profit, either from capital gain or rental income. This includes, *inter alia*, office buildings, industrial property, medical centers, hotels, malls, retail stores, farm land, multifamily housing buildings, warehouses, and garages;

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

"financial institution" has the same meaning as in the Banking Act 2004; and

"residential property" means land bought for the purpose of future construction of a residential property, building, or tenentment wholly or principally constructed, adapted or intended for human habitation.

Board and Senior Management Responsibilities

1. The board of directors of a bank shall as a minimum:-

    a. establish, assess and approve the LTV limits for credit facilities granted for the purchase/construction of residential/commercial properties as an integral part of the bank's credit risk management policy;

    b. review at least once a year the LTV limits applicable to credit facilities granted for the purchase/construction of residential/commercial properties; and

    c. ensure through audit and inspection, adherence to the LTV limits set out in the bank's credit management policy.

2. A bank shall develop and implement information systems and procedures and techniques that accurately identify, measure and monitor adherence to the LTV limits when granting credit facilities.

3. Although this guideline applies to credit facilities granted for the purchase/construction of residential/commercial properties, a bank may establish internal LTV limits and rules to other sectors.

Loan-to-Value Ratio

4. LTV ratio is defined as the ratio of the amount of money borrowed to the appraised value of the property being purchased/under construction.

5. A bank shall compute the LTV ratio of a borrower who is applying for credit facilities for the purchase/construction of a property by using the following formula:-

$$LTV = \frac{\sum_{1}^{i} \; Outstanding\ Amount\ of\ Loan\ i}{Appraised\ Value\ of\ Property} \times 100$$

6. The appraised value of the property shall be determined by an independent valuer who:-

    a. is a Chartered Valuation Surveyor certified by the Mauritius Institute of Surveyors or equivalent as approved by the Bank of Mauritius;

    b. has no direct or indirect financial interest in the property being appraised, or in the transaction involving the bank in respect of that property; and

    c. has no credit granting or investment decision-making authority within the bank.

Set Offs

7. A bank may set off the following items against the outstanding amount of the credit facility when calculating the LTV ratio:-

    a. claims on/or guaranteed by the Government of Mauritius and Bank of Mauritius; and

    b. the amount of deposits pledged as security against the credit facility either with the lending financial institution or other financial institutions provided that the deposits pledged or assigned to the lender are legally enforceable in all relevant jurisdictions.

8. A bank shall not be allowed to off set against the outstanding amount of the credit facility, the value of any other property provided as additional collateral when calculating the LTV ratio.

Prudential Limits

Residential Property

9. A bank shall ensure, when granting credit facilities to a single borrower or husband and wife in case of a joint application for the purchase/construction of a first housing unit, that the LTV ratio does not exceed:-

    a. 90 per cent of the value of the residential property for credit facilities up to an amount of Rs5.0 million;

    b. 80 per cent of the value of the residential property for credit facilities up to an amount of Rs12.0 million; or

    c. 70 per cent of the value of the residential property for credit facilities above an amount of Rs12.0 million.

10. A bank shall ensure, when granting credit facilities to a borrower for the purchase/construction of a second or any subsequent residential property, that the LTV ratio does not exceed 70 per cent of the value the property.

11. A bank shall ensure, when granting credit facilities in case of joint applications consisting of two or more borrowers for the purchase/construction of a residential property, that the LTV ratio does not exceed 70 per cent of the value of the property.

12. A bank shall ensure, when granting credit facilities to a borrower, who is not an individual for instance in case of a company, a trust or a société, for the purchase/construction of a residential property, that the LTV ratio does not exceed 70 per cent of the value of the property.

Commercial Property

13. A bank shall ensure, when granting credit facilities to a borrower for the purchase/construction of commercial property, that the LTV ratio does not exceed:-

a. 70 per cent of the value of the property for credit facilities up to an amount of Rs75.0 million; or

b. 60 per cent of the value of the property for credit facilities above an amount of Rs75.0 million.

Terms and Conditions

14. A bank shall not disburse funds for the purchase/construction of a residential/commercial property until the borrower has brought his contribution, that is, the difference between the cost of the project and the loan extended by the bank.

15. A bank shall ensure that the difference between the cost of the project and the loan extended under the LTV ratio for the purchase/construction of a residential/commercial property has not been borrowed from any financial institution including those financial institutions not regulated by the Bank.

16. A bank shall ensure that the disbursement of credit facilities for the purchase/construction of a residential/commercial property is made in tranches depending on the satisfactory progress of the construction.

Declaration of Borrower

17. For the purpose of determining appropriate LTV buckets when granting credit facilities for the purchase/construction of a residential property, the bank shall request from a borrower a written declaration on:-

    a. whether the borrower is applying for the grant of the credit facilities for the purchase/construction of a first housing unit or additional units; and

    b. whether the borrower has availed of credit facilities at other financial institutions including those not regulated by the Bank for the purchase/construction of a first housing unit or additional units, together with the supporting documents.

Verification by the bank

18. At the time when a borrower is applying for the grant of a credit facility for purchase/construction of a residential property, the bank shall conduct comprehensive checks to verify the accuracy of the declaration made by the borrower. The bank shall carry out a search at the Registrar General Department and consult the MCIB to verify the indebtedness of the borrower.

Exempt Facilities

19. The following credit facilities shall be exempted from LTV limits but individual banks may apply their internal limits on such credit facilities:-

    a. credit facilities granted for the purchase/construction of commercial property under the Small and Medium Enterprises Financing Scheme (inclusive of Small and Micro Financing Enterprises);

b. claims secured by residential/commercial property which are not for purchase/construction;

c. credit facilities granted to employees of banks for the purchase/construction of residential properties for their personal occupation;

d. credit facilities granted for purchase/construction of commercial property where there is a presale agreement whereby at least 25 per cent of the agreed price has been paid by the potential buyers to the promoters in an escrow account at the bank prior to the disbursement of the loan. The proceeds received from the presale shall at least break even with the cost of the project;

e. credit facilities granted to domestic Public Sector Enterprises (PSEs) for the purchase/construction of commercial property which are not guaranteed by Government of Mauritius provided they satisfy the following essential criteria:-

    i. the PSEs have specific revenue raising powers and specific institutional arrangements the effect of which is to reduce the risk of default;

    ii. the PSEs are operating in monopolistic markets and providing essential services;

    iii. a declaration of bankruptcy is not possible due to their special public status, unless an Act of Parliament is passed for this purpose.

f. 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

g. 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.

Supervisory Review

20. The Bank will assess the processes, procedures and policies put in place by a bank to ensure conformity with the prudential LTV limits set out in this guideline.

21. 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
10 September 2014