

C4/2020

To: All banks, branches of foreign institutions, controlling companies, eligible institutions and auditors of banks or controlling companies

Circular 4/2020 issued in terms of section 6(4) of Banks Act, 1990:

Interpretation and application of criteria relating to exposures secured by residential mortgage bonds

Executive summary

The purpose of this circular is to provide clarity on the interpretation and application of the criteria relating to exposures secured by residential mortgage bonds, as outlined in regulation 23(8)(c), read with regulations 23(6)(b) and 23(6)(c) of the Regulations relating to Banks.

This circular replaces Banks Act Circular 4/2014, dated 14 February 2014.

1. Introduction

- 1.1 Due to possible differences in the interpretation of the provisions of regulation 23(8)(c), read with regulations 23(6)(b) and 23(6)(c) of the Regulations relating to Banks (the Regulations) in respect of exposures secured by residential mortgage bonds, there may be inconsistencies in the capital calculations and reporting with regard to regulation 23(8)(c), read with regulations 23(6)(b) and 23(6)(c) of the Regulations.
- 1.2 The purpose of this circular is to provide clarity regarding the application and interpretation of regulation 23(8)(c), read with regulations 23(6)(b) and 23(6)(c) of the Regulations.
- 1.3 This circular replaces Banks Act Circular 4/2014, dated 14 February 2014.

2. Regulation references

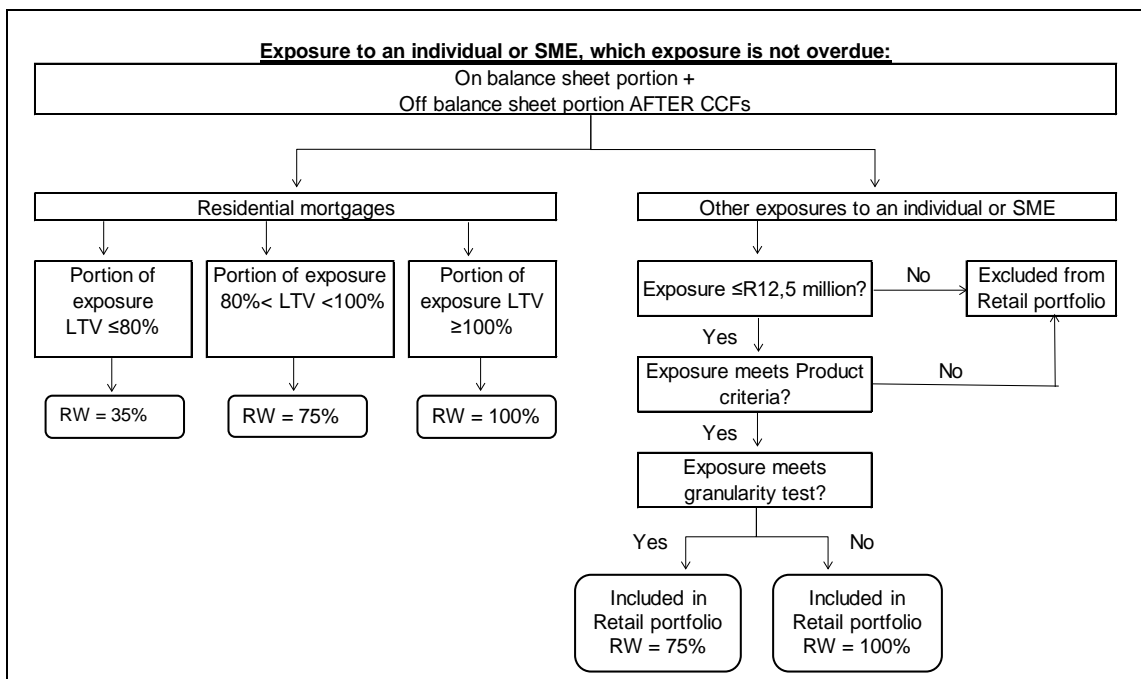
- 2.1 Regulation 23(6)(b)(ii) of the Regulations specifically excludes residential mortgage loans, as specified in regulation 23(6)(c) of the Regulations from the category of retail exposures to which a risk weight of 75 per cent is applied.
- 2.2 Furthermore, Regulation 23(6)(c) respectively refers to 'lending fully secured by a mortgage bond' and to 'the capital amount outstanding'.

3. Interpretation and application of criteria relating to exposures secured by residential mortgage bonds

- 3.1 For the purpose of regulation 23(8)(c), read with regulations 23(6)(b) and 23(6)(c)

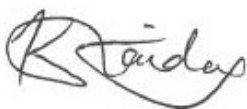
of the Regulations, exposure shall be the sum of the on-balance sheet exposure and the off-balance sheet exposure after the application of relevant credit conversion factors.

- 3.2 Regulation 23(6)(c) refers to a 'lending fully secured by a mortgage bond'. This reference should be interpreted to include an individual and a legal person such as a trust or close corporation, where such exposure is for example supported by the personal surety of the beneficial owner of the residential property mortgaged.
- 3.3 The impact of the above interpretations on the classification of retail-exposures can be summarised as follows:



4. Acknowledgement of Receipt

- 4.1 Kindly ensure that a copy of this circular is made available to your institution's independent auditors. The attached acknowledgement of receipt duly completed and signed by both the chief executive officer of the institution and the said auditors should be returned to the PA at the earliest convenience of the aforementioned signatories.



Kuben Naidoo
Deputy Governor and CEO: Prudential Authority

Date: 2020-12-07

The previous circular issued was Banks Act Circular 3/2020, dated 27 August 2020.