



South African Reserve Bank  
From the Office of  
the Registrar of Banks

C4/2014

2014-02-14

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

**Circular 4/2014 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

It has come to the attention of this Office that there appears to be uncertainty among banks with regard to 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 uncertainty has resulted in inconsistency in capital calculations and reporting of exposures secured by residential mortgage bonds in the BA returns.

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.

#### **1. Introduction**

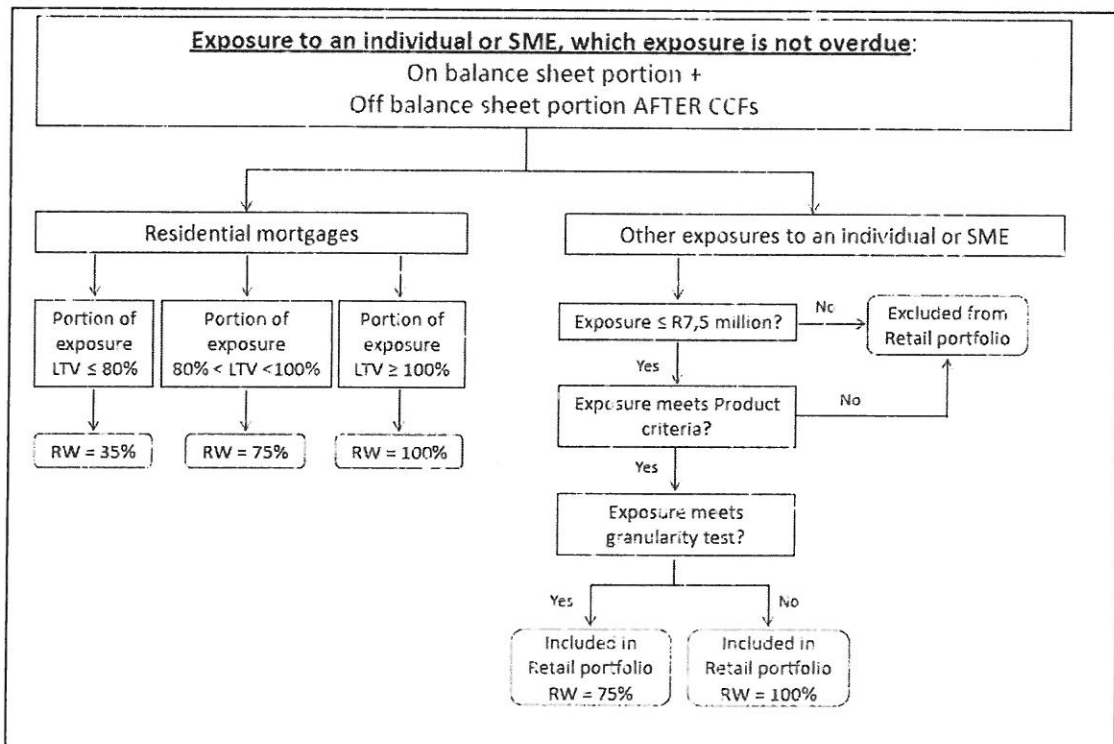
- 1.1 It has come to the attention of this Office that banks have interpreted the provisions of regulation 23(8)(c), read with regulations 23(6)(b) and regulation 23(6)(c) of the Regulations relating to Banks (the Regulations) in respect of exposures secured by residential mortgage bonds differently. These differences in interpretation have resulted in inconsistent reporting by banks 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.

## 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 Two additional copies of this circular are enclosed for the use of your institution's independent auditors. The attached acknowledgement of receipt, duly completed and signed by both the chief executive officer and the said auditors, must be returned to this Office at the earliest convenience of the aforementioned signatories.



René van Wyk  
**Registrar of Banks**

The previous circular issued was Banks Act Circular 3/2014, dated 13 February 2014. This circular replaces Banks Act Circular 6/2010, dated 14 December 2010.