

Ref.: 15/8/1/1

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

**Proposed Directive issued in terms of section 6(6) of the Banks Act, 1990**

**Prudential treatment of credit exposures secured by forest and agricultural land**

### **Executive Summary**

The purpose of this proposed Directive is to direct banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as 'banks') on the prudential treatment for credit exposures secured by forest and agricultural land. Regulations 23(6)(c) and 23(6)(d) of the amended Regulations relating to Banks (Regulations) exclude certain categories of forest and agricultural land from the land acquisition, development and construction (ADC) category of both residential and commercial real estate. Other than the land ADC category, forest and agricultural land is not explicitly mentioned in any other category of real estate in the amended Regulations.

#### **1. Introduction**

- 1.1 Real estate is immovable property that includes land used for forest and agricultural purposes or anything treated as attached to land, in particular buildings. Regulations 23(6)(c) and 23(6)(d) of the amended Regulations stipulates specific criteria for classifying and treating real estate as security for credit exposures, particularly for residential and commercial real estate as well as land intended for acquisition, development and construction (ADC). However, other than the exclusions from the land ADC category, the amended Regulations do not explicitly stipulate the prudential treatment for forest and agricultural land. Therefore, the regulatory treatment for forest and agricultural land should be based on considerations of the broader real estate framework.
- 1.2 Forest and agricultural land should be considered as part of residential and commercial real estate, as well as land ADC exposures. However, credit exposures secured by residential and/or commercial forest and/or agricultural land do not need to be finished property (in other words, unlike other property types, forest and agricultural land does not need to be fully completed).
- 1.3 Regulation 23(6)(c) of the amended Regulations specifies precise criteria for real estate to be treated as security for residential exposures. However, regulation

23(6)(c)(xii)(B)(i)(bb) of the amended Regulations specifically excludes forest and agricultural land, which has neither planning consent nor the intention to apply for planning consent, from residential land ADC.

1.4 Similarly, regulation 23(6)(d) of the amended Regulations specifies precise criteria for real estate to be treated as security for commercial real estate. Regulation 23(6)(d)(ii)(bb) of the amended Regulations specifically excludes forest and agricultural land, which has neither planning consent nor the intention to apply for planning consent, from commercial land ADC.

1.5 The purpose of this proposed Directive is to direct banks on the prudential treatment of credit exposures secured by land used for forest and agricultural purposes.

## **2. Proposed Directive**

2.1 In accordance with the provisions of section 6(6) of the Banks Act, 1990, banks are hereby directed to apply risk weights to exposures secured by forest and agricultural land as follows:

### *Residential real estate*

2.1.1 In the case where lending to a borrower is secured by residential real estate that complies with regulations 23(6)(c)(i) through regulation 23(6)(c)(x) of the amended Regulations, the bank must apply the applicable risk weights specified in Table 1 of regulation 23(6)(c) of the amended Regulations to the relevant exposure.

2.1.2 In the case where the repayment of the loan secured by residential real estate depends materially on the cash flows generated by the real estate, as specified in regulation 23(6)(c)(xi) of the amended Regulations, the bank must apply the applicable risk weights specified in Table 2 of that regulation to the relevant exposure.

2.1.3 In the case of where the exposure relates to residential land ADC, as specified in regulation 23(6)(c)(xii) of the amended Regulations, banks must apply a risk weight of 100 per cent to the relevant exposure.

2.1.4 In the case of where the residential real estate exposure is unhedged from a borrower's currency risk perspective as specified in regulation 23(6)(c)(xiii) of the amended Regulations, banks must apply a risk weight of 150 per cent to the relevant exposure.

2.1.5 In the case where a bank does not comply with the requirements set out in paragraphs 2.1.1 through 2.1.4 (in other words, the exposure does not fall within the ambit of any exposure envisaged in the aforementioned paragraphs), and, as specified in regulation 23(6)(c)(xiv) of the amended Regulations, the bank may risk weight the relevant residential real estate exposure based on a risk weight of an unsecured exposure to the relevant counterparty, subject to the Prudential Authority's (PA) sole discretion and such further requirements as may be directed by the PA (which may include the PA directing the bank in writing to risk weight the relevant exposure at 150 per cent).

### *Commercial real estate*

- 2.1.6 In the case where lending to a borrower is secured by commercial real estate that complies with regulation 23(6)(d) of the amended Regulations, the bank must apply the applicable risk weights specified in Table 1 of that regulation to the relevant exposure.
- 2.1.7 In the case where the repayment of the loan secured by commercial real estate depends materially on the cash flows generated by the commercial real estate, as specified in regulation 23(6)(d)(i) of the amended Regulations, the bank must apply the applicable risk weights specified in Table 2 of that regulation to the relevant exposure.
- 2.1.8 In the case where the exposures relate to commercial land ADC as specified in regulation 23(6)(d)(ii) of the amended Regulations, banks must apply a risk weight of 150 per cent to the relevant exposure.
- 2.1.9 In the case where bank does not comply with the requirements set out in paragraphs 2.1.6 through 2.1.8 (in other words, the exposure does not fall within the ambit of any of exposure envisaged in the aforementioned paragraphs), and, as specified in regulation 23(6)(d)(iii) of the amended Regulations, and the repayment of the loan secured by the commercial real estate is not materially dependent on the cash flows generated by the property, the bank may risk weight the relevant commercial real estate exposure based on a risk weight of an unsecured exposure to the relevant counterparty, subject to the PA's sole discretion and such further requirements as may be directed by the PA (which may include the PA directing the bank in writing to risk weight the relevant exposure at 150 per cent).

### **3. Effective date**

- 3.1 The respective requirements specified in this proposed Directive shall be effective from [to be determined].

### **4. Invitation for comment**

- 4.1 All interested persons are hereby invited to submit their comments on the proposed Directive, to [SARB-PA@resbank.co.za](mailto:SARB-PA@resbank.co.za) and [RSD-CreditRisk@resbank.co.za](mailto:RSD-CreditRisk@resbank.co.za), for the attention of Mr Dzhavhelo Nevani, by no later than 14 July 2025.

**Fundi Tshazibana**  
**Chief Executive Officer**

**Date:**