INSTRUCTION NOTES FOR THE COMPILATION OF THE

LOAN TO VALUE AND MORTGAGE DATA RETURN

AUGUST 2022

1. Introduction

Real estate boom-bust cycles often follow the financial cycle and can have large losses for, and often failure of, financial institutions, with adverse ramifications for the financial system and broader economy. This was evident in the 2008–09 global financial crisis (GFC). Leading up to the GFC, lenders had increasingly relaxed loan-to-value (LTV) limits and also increased loan tenors even as housing prices became increasingly disconnected from fundamentals, such as valuation of the real estate property.

In order to address such risks from the real estate sector, it is important for the Bank of Uganda (BOU) to conduct on-going surveillance of developments in the real estate sector and where necessary implement macroprudential policy on loan-to-value (LTV) ratios for supervised financial institutions' (SFI)[1] exposure and vulnerability to potential risk associated with real estate sector developments. The LTV macroprudential policy tool is especially instrumental in economies such as Uganda, where real estate property constitutes a significant collateral for credit extension and an investment asset for households and financial institutions. The LTV ratio imposes a down-payment requirement (equity contribution) on the part of the borrower, thereby capping the size of mortgage loans relative to the value of the real estate property backing the loans, and this effectively minimizes both the probability of default and loss given default.

In order to harmonize application of LTV concepts by SFIs and implementation of BOU LTV policy, this document provides guidelines on definition, computation, and reporting of LTV and mortgage data to be applied by all SFIs.

2. Definition of LTV components

The Financial Stability Board defines the loan-to-value (LTV) ratio as the ratio of the amount of the loan to the appraised value of the real estate property (FSB 2012).[2]

$$LTV\ ratio\ = \frac{Loan\ Amount}{Appraised\ Value\ of\ Real\ Estate} \text{ x } 100$$

2.1. Loan Amount

The loan amount refers to the amount disbursed during the reporting period or the outstanding loan amount and any undrawn committed amount of the loan as at the end of the reporting period. In the case of off-balance sheet items, only the utilized/drawn amount should be included. The loan amount must be calculated **without** deducting any provisions and other risk mitigants, except for deposits accounts (cash collateral) pledged with the lending bank that meet all requirements for on-balance sheet netting and have been unconditionally and irrevocably pledged for the sole purposes of redemption of that loan. (*This criterion is consistent with the Basel III framework, (BCBS 2017)*)[3].

[1] Supervised Financial Institutions (SFI): Commercial Banks, Credit Institutions, and Microfinance Deposit-taking Institutions.

[2] Financial Stability Board, 2012, "Principles for Sound Residential Mortgage Underwriting Practices", Financial Stability Board.

[3] Basel Committee on Banking Supervision, 2017, "Basel III: Finalizing Post-crisis Reforms," Bank for International Settlements, December, https://www.bis.org/bcbs/publ/d424.pdf, last accessed April 20, 2020.

2.2. The 'Appraised Value' of real estate

The value of the property refers to the most recent independently appraised value of the property, which would be sustainable over the life of the loan. This value should not be higher than the open market value. SFIs must take caution to ensure that the valuation is appraised independently using prudently conservative valuation criteria and that it excludes expectations on price increases and must not depend materially on the performance of the borrower. If the loan is financing the purchase of the real estate property, the value of the property for LTV purposes will not be higher than the effective purchase price.

Real estate property includes both developed and undeveloped land. Developed land is such land on which immovable *residential buildings*, *commercial buildings* and structures, and *infrastructure* have been erected, or are being constructed, and satisfy all applicable laws and regulations enabling the property to be used for the residential or commercial purposes. For residential or commercial property under construction, this means there should be an expectation that the property will satisfy all applicable laws and regulations enabling the property to be occupied for the intended purpose. On the other hand, undeveloped land includes bare land and land that has buildings or infrastructure that are legally or functionally unusable in their current state.

For the real estate property, as defined here, to be considered for LTV reporting, the SFI must have a legally enforceable claim on the property, for the bank to realize the value of the property within a reasonable time frame in the event of a foreclosure.

2.3. Other considerations in determining LTV

In computing the LTV, the following shall also be considered:

i. **Deposit accounts (i.e. time deposits) and/or government treasury securities**: In line with Basel III and the practices in other jurisdictions such as England, Sweden and South Africa, if deposit accounts have also been unconditionally and irrevocably pledged with the lending SFI, to supplement the real estate property collateral, for the sole purpose of redemption of the exposure, they can be added to the collateral value in determining the LTV ratio, and should also be reported as part of associated collateral. Such deposit accounts must be in the custody of the lending financial institution, and in the case of the government treasury securities, the lender must have a legally enforceable claim.

ii. For real estate property under construction, the estimated property **value-upon-completion** **should not** be used. The last valuation of the existing real estate property, as is, should be used. The rationale is that there is no guarantee that the construction will be completed, or if completed, that the value estimated now will be reasonably close to the value occasioned by the market conditions then.

iii. **Other collateral** (e.g. debentures, chattels, claim on receivables and cashflows, etc.) or credit enhancements (e.g. insurance, guarantees, etc.) **should not** be considered when computing the LTV ratio. This is because the valuation and market for these asset classes in Uganda is not at this time developed to guarantee reasonable realization of value in case of foreclosure. However, once

BOU subsequently deems the market for these assets to be developed enough, the inclusion of these "other collateral" in the LTV computation shall be considered.

iv. **Property value not appraised by a professional valuer**: Where the loan is extended against real estate property whose valuation was not assessed by a professional valuer, the SFI should report the exposure and imputed collateral value under "*Exposure to Property Not Valued Independently*" in the LTV return.

3. Classification of Loan Exposure

Loan disbursements or outstanding loans are classified, and should be reported, based on the intended use of the loan proceeds, as follows.

a) **Credit extensions to owner-occupied residential mortgages:** Loans for the purchase or construction of immovable residential property, primarily to be occupied by the owner. The property should have the nature of a dwelling and satisfy all applicable laws and regulations enabling the property to be occupied for residential purposes.

b) **Credit extensions to income-generating residential mortgages:** Loans for the purchase or construction of immovable residential property, which satisfy all applicable laws and regulations to be occupied for residential purposes, but are primarily for income generation rather than owner-occupation. The other distinguishing characteristic of these exposures is that the servicing of the loan depends materially on the income from renting, or leasing, or selling this particular residential property.

   Where the residential property is partly owner-occupied and partly income-income generating, it should be treated as income-generating for purposes of reporting under these guidelines.

c) **Credit extensions to commercial mortgages:** Loans for the purchase or construction of, and secured by, immovable property that is not a residential real estate property. Such property, which includes shopping complexes, office space, and industrial/warehouse structures, hotels, among others, is the main source of cash flows used to pay the loan obligations.

d) **Credit extensions for purchase of land:** This is limited to reporting loans extended for the purchase of vacant/undeveloped, agricultural or forest land.

e) **All other credit extensions collateralized by real estate property at various LTV ratios:** includes all other credit exposures secured (fully or partly) with real estate property, that are extended for purposes other than the outright purchase of land, and purchase or construction of immovable residential or commercial buildings. Such exposures include equity release loans on real estate property for personal loans (e.g. salary loans, school fees loans), business working capital, and corporate loans, among others.

f) **Multiple loans collateralized by a single collateral:** In case a SFI retains a particular real estate property as collateral for more than one loan, the gross outstanding exposure should be reported alongside the collateral value. Where the multiple exposures are classified differently, the SFI should report the respective exposures under their appropriate classification, with the associated collateral value reported as the respective exposures' proportionate claim on the single collateral.

g) **Syndicated or pari passu loans**: This refers to the case where different SFIs extend credit facilities collateralized by the same real estate property to a single or related borrower. It is important that the SFIs involved in the syndication are updated of the collateral's most recent valuation and their legally enforceable claim on the collateral, in order to accordingly update their respective exposure and LTV assessment. For such exposures, every SFI shall determine the applicable LTV band for its individual exposure, based on: (i) its disbursements or outstanding exposure in the syndicated facility and (ii) its legally enforceable claim, as per the syndication agreement, on the shared collateral as the associated collateral value. The objective is to minimize information asymmetry and ensure that the total exposure is fully accounted for.

4. Reporting of LTV and mortgage data by SFIs

a) ***Return templates***: The LTV return has three schedules, with two of them recording aggregated loans disbursements, outstanding balances, and collateral at the associated LTV ratio bands. The third schedule is for account level data from valuation reports for Residential Property Mortgage. The return templates, excerpts of which are provided in the appendix, are available on the Bank Supervision Application (BSA).

(i) ***Schedule 1***: relates to aggregate disbursements during the reporting period, including the gross loan amount, collateral value, and interest rates, all populated in columns A – G, and rows 1 – 233.

- Each loan's LTV at disbursement determines the LTV band under which that disbursed loan amount, and the subsequent outstanding exposure, is reported.
- For the interest rate, if it varied during the reporting period, or within the LTV ratio band, provide the weighted average of lending interest rates (percent, per annum) applied on disbursements during the period and within the same LTV ratio band.
- This schedule is not for the outstanding exposure (reported in schedule 2).

(ii) ***Schedule 2***: reports outstanding disbursements collateralized with real estate property, all populated in columns A – I and rows 1 – 232, as at end of the reporting period.

- <u>Note</u> that the outstanding exposures should continue to be reported under the same LTV band at which the last disbursement was done, regardless of subsequent reduction in the credit balance that would otherwise imply a lower LTV band. **On the other hand, if there is subsequent capitalization of past-due and unpaid interest or other fees, it should elevate the increased outstanding exposure to a higher LTV band**.
- Column B reports outstanding gross loans; Column C captures the amount of the outstanding loans that are classified as non-performing in line with the applicable credit classification and provisioning

Regulations; Columns D and E reports the associated collateral value; Column F is an auto-sum of D and E, and therefore does not require input from the SFI; column G records the number (or count) of outstanding credit exposures in the LTV band.

- Disbursements during the reporting period (reported under schedule 1) that remain outstanding as at end of the reporting period should be included.

(iii) Schedule 3: reports the account level (loan-by-loan) information on owner-occupied and income-generating residential mortgages. SFIs are required to provide details on the mortgage, as per the attributes in columns A – Z, using information from the property valuation reports.

b) ***Reporting currency***: Shilling and foreign currency denominated exposures, associated collateral value, and disbursements during the reporting period are to be reported separately. However, the foreign currency denominated exposures and the associated collateral value and disbursements should be reported in Uganda shillings, using the Bank of Uganda mid-rate of the exchange rates at closing for the last day of the reporting period (*as posted on the Bank of Uganda website*). This mid-rate should be duly indicated in the LTV return, as provided for.

c) ***Reporting periodicity***: SFIs shall submit the LTV return according to the frequency and timelines communicated by Bank of Uganda, through Circulars.

d) ***Submission medium:*** SFIs shall submit the returns through the BSA, or other medium as may be communicated by BOU.

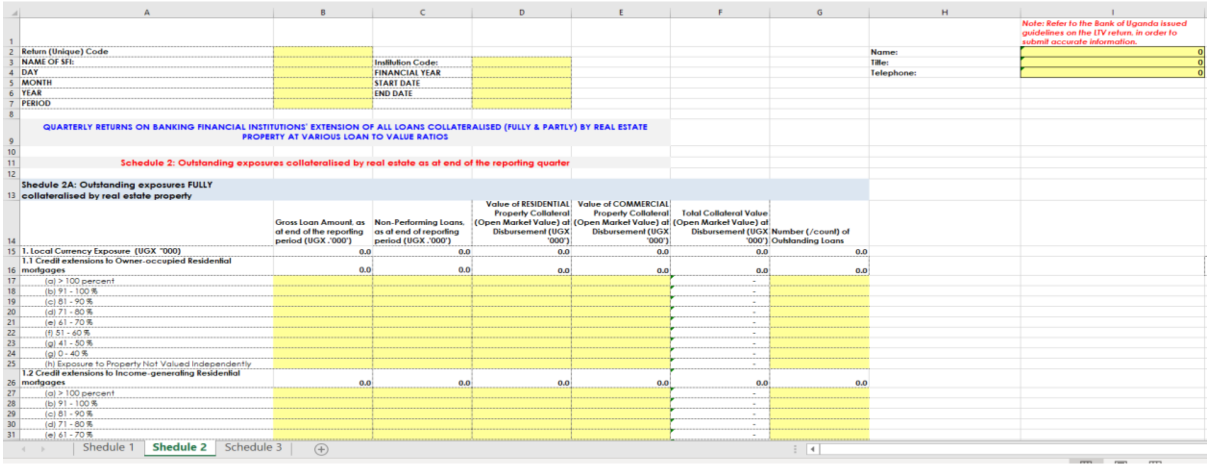
5. Appendix

Schedule 1: Disbursements of loans collateralized by real estate property

	A	B	C	D	E	F	G
1							*Note: Refer to the Bank of Uganda issued guidelines on the LTV return, in order to submit accurate information.*
2	**Return (Unique) Code**					**Name:**	
3	**NAME OF SFI:**		**Institution Code:**			**Title:**	
4	**DAY**		**FINANCIAL YEAR**			**Telephone:**	
5	**MONTH**		**START DATE**				
6	**YEAR**		**END DATE**				
7	**PERIOD**						
8							
9	**QUARTERLY RETURNS ON BANKING FINANCIAL INSTITUTIONS' EXTENSION OF ALL LOANS COLLATERALISED (FULLY & PARTLY) BY REAL ESTATE PROPERTY AT VARIOUS LOAN TO VALUE RATIOS**						
10							
11	**Shedule 1: Disbursements of loans collateralised by real estate property during the reporting quarter**						
12							
13	**Shedule 1A: Disbursements of loans FULLY collateralised by real estate property**						
14		**Gross Disbursed Loan Amount during the Reporting Quarter (UGX '000')**	**Value of RESIDENTIAL Property Collateral (Open Market Value) at Disbursement (UGX '000')**	**Value of COMMERCIAL Property Collateral (Open Market Value) at Disbursement (UGX '000')**	**Total Collateral Value (Open Market Value) at Disbursement (UGX '000')**	**Interest Rate (% p.a.) on Disbursements during Reporting Quarter**	
15	**1. Local Currency Exposure (UGX '000)**	0.0	0.0	0.0	0.0	0.0	
16	**1.1 Credit extensions to Owner-occupied Residential mortgages**	0.0	0.0	0.0	0.0	0.0	
17	(a) > 100 percent				-		
18	(b) 91 - 100 %				-		
19	(c) 81 - 90 %				-		
20	(d) 71 - 80 %				-		
21	(e) 61 - 70 %				-		
22	(f) 51 - 60 %				-		
23	(g) 41 - 50 %				-		
24	(g) 0 - 40 %				-		
25	(h) Exposure to Property Not Valued Independently				-		
	1.2 Credit extensions to Income-generating Residential						

Shedule 1 | Shedule 2 | Schedule 3

Schedule 3: Outstanding exposures collateralized by real estate



Note: Refer to the Bank of Uganda issued guidelines on the LTV return, in order to submit accurate information.

Return (Unique) Code			Name:	0
NAME OF SFI:		Institution Code:	Title:	0
DAY		FINANCIAL YEAR	Telephone:	0
MONTH		START DATE		
YEAR		END DATE		
PERIOD				

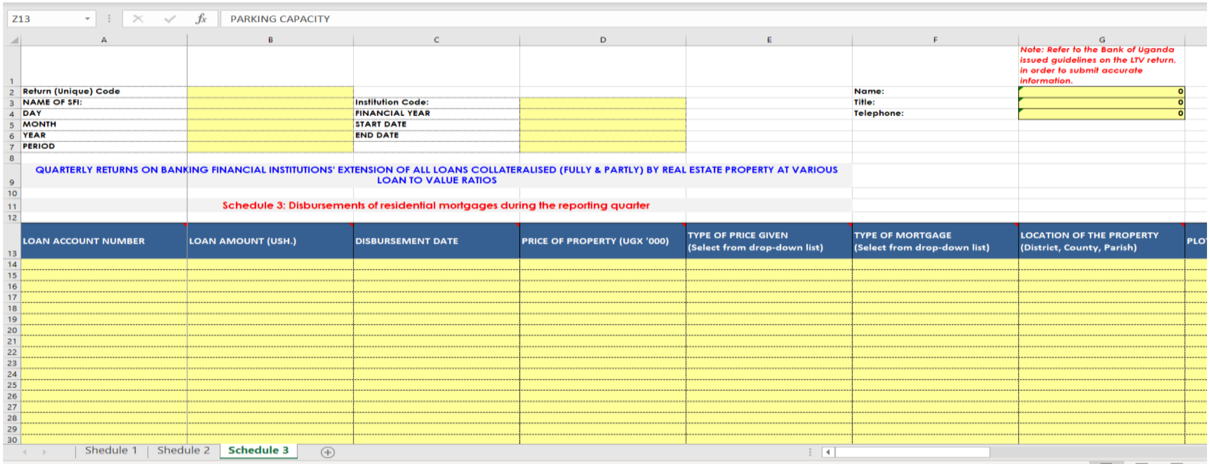
QUARTERLY RETURNS ON BANKING FINANCIAL INSTITUTIONS' EXTENSION OF ALL LOANS COLLATERALISED (FULLY & PARTLY) BY REAL ESTATE PROPERTY AT VARIOUS LOAN TO VALUE RATIOS

Schedule 2: Outstanding exposures collateralised by real estate as at end of the reporting quarter

Shedule 2A: Outstanding exposures FULLY collateralised by real estate property	Gross Loan Amount, as at end of the reporting period (UGX.'000')	Non-Performing Loans, as at end of reporting period (UGX.'000')	Value of RESIDENTIAL Property Collateral (Open Market Value) at Disbursement (UGX '000')	Value of COMMERCIAL Property Collateral (Open Market Value) at Disbursement (UGX '000')	Total Collateral Value (Open Market Value) at Disbursement (UGX '000')	Number (/count) of Outstanding Loans
1. Local Currency Exposure (UGX "000)	0.0	0.0	0.0	0.0	0.0	0.0
1.1 Credit extensions to Owner-occupied Residential mortgages	0.0	0.0	0.0	0.0	0.0	0.0
(a) > 100 percent					-	
(b) 91 - 100 %					-	
(c) 81 - 90 %					-	
(d) 71 - 80 %					-	
(e) 61 - 70 %					-	
(f) 51 - 60 %					-	
(g) 41 - 50 %					-	
(g) 0 - 40 %					-	
(h) Exposure to Property Not Valued Independently					-	
1.2 Credit extensions to Income-generating Residential mortgages	0.0	0.0	0.0	0.0	0.0	0.0
(a) > 100 percent					-	
(b) 91 - 100 %					-	
(c) 81 - 90 %					-	
(d) 71 - 80 %					-	
(e) 61 - 70 %					-	

Shedule 1 | Shedule 2 | Schedule 3

Schedule 3: Disbursements of residential mortgages



Z13 PARKING CAPACITY

Note: Refer to the Bank of Uganda issued guidelines on the LTV return, in order to submit accurate information.

Return (Unique) Code			Name:	0
NAME OF SFI:		Institution Code:	Title:	0
DAY		FINANCIAL YEAR	Telephone:	0
MONTH		START DATE		
YEAR		END DATE		
PERIOD				

QUARTERLY RETURNS ON BANKING FINANCIAL INSTITUTIONS' EXTENSION OF ALL LOANS COLLATERALISED (FULLY & PARTLY) BY REAL ESTATE PROPERTY AT VARIOUS LOAN TO VALUE RATIOS

Schedule 3: Disbursements of residential mortgages during the reporting quarter

LOAN ACCOUNT NUMBER	LOAN AMOUNT (USH.)	DISBURSEMENT DATE	PRICE OF PROPERTY (UGX '000)	TYPE OF PRICE GIVEN (Select from drop-down list)	TYPE OF MORTGAGE (Select from drop-down list)	LOCATION OF THE PROPERTY (District, County, Parish)	PLO

Shedule 1 | Shedule 2 | Schedule 3