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The Governor

DIRECTIVE N° 2600 /2019 – 00015 [613] ON THE COMPUTATION OF LOAN-TO-VALUE RATIO FOR RESIDENTIAL AND COMMERCIAL PROPERTY LOANS

Pursuant to Law N°48/2017 of 23/09/ 2017 governing the Central Bank of Rwanda, especially in Articles 6, 8, 9, 10 and 15;
Pursuant to Law N° 47/2017 of 23/09/ 2017 governing the organization of banking, especially in Article 117;
Pursuant to the Directive N° 03/2015 of 11/11/ 2015 on capital requirements especially in its chapter 2;
The National Bank of Rwanda hereinafter referred to as "Central Bank", decrees:

CHAPTER ONE: GENERAL PROVISIONS

Article One: Purpose

The purpose of this directive is to guide banks in computing the Loan to Value (LTV) and setting LTV maximum limits when granting credit facilities for the purchase and or construction of commercial and residential properties in Rwanda.

Article 2: Definitions

In this Directive, the following terms and expression have the following meaning:

1° **Bank**: refers to banks as defined in the banking law;
2° **Borrower**: any party applying for a credit facility;
3° **Commercial property**: a building bought/constructed/renovated for the purpose of generating a profit, from either capital gain or rental income. This includes office buildings, industrial property, medical centers, hotels, malls, retail stores, multi-family housing buildings or apartments, warehouses, and garages;
4° **Credit facility**: any secured and/or unsecured credit-based facility;
5° **Residential property**: a building or tenement bought/ constructed or adapted for human habitation;
6° **Loan To Value (LTV) ratio**: the ratio of the amount of money borrowed to the lower of the appraised value or purchase value of the property being purchased/constructed or renovated;
7° **Equity**: the difference between the total appraised value of the property and the amount owed on that property;
8° **Primary residence**: a residence where an (a) individual lives or is deemed to live; or (b) individual and his or her family live or are deemed to live, for most part of the year;

9° **Non-primary residence**: a residence that is not the primary residence of an individual and is used for, but not limited to, holidays, leasing, renting and has a separate title deed than the primary residence.

Article 3: Board Responsibilities

The board of directors of a banking institution are responsible for establishing adequate policies and procedures to ensure that all requirements set out in this Directive are complied with.

Article 4: Bank obligations

A bank shall as a minimum:

1° 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;

2° Review at least once in three years the LTV limits applicable to credit facilities granted for the purchase/construction of residential/commercial properties;

3° Ensure through audit and inspection, adherence to the LTV limits set out in the bank's credit management policy.

4° Develop and implement information systems, procedures, and techniques that accurately identify measure and monitor adherence to the LTV limits when granting credit facilities.

5° Treat spouses married in community of property as one customer for the purposes of this directive;

6° Not disburse funds for the purchase/construction of a residential/commercial property until the borrower has first brought his contribution, that is, the difference between the cost of the project and the loan to be extended by the bank, without lien or encumbrance;

7° 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 Central Bank;

8° Disburse a loan for the purchase/construction of residential and commercial property if the deposit referred to in this directive is financed through equity. The equity should not be collateralized or financed by any financial institution including those financial institutions not regulated by the Bank;

9° Abstain from netting against the outstanding amount of the credit facility, the value of any other property provided as a collateral when calculating the LTV ratio;

10° Ensure that the disbursement of credit facilities for the construction of a residential/commercial property is made in tranches depending on the satisfactory progress of the construction;

11° Consider only 75 percent of the value of land or plot bought for the purpose of future construction, if land/plot is part of construction project and has been appraised by the independent valuer;

12° Assess 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

13° Assess whether the borrower has obtained credit facilities from 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.

CHAPTER II: LTV REQUIREMENTS

Article 5: Criteria for LTV application

Criteria for LTV application are as follows:

1° Only one property is considered as a primary residence for the purposes of this directive;

2° An individual with a member's interest of more than 50 percent in a close corporation which owns property is considered to be the owner of the property for the purposes of this directive;

3° A member of a cooperative shall be treated as the owner of the credit facility, whether the property is shared or apportioned.

Article 6: Computation of LTV

The loan-to-value ratio referred to in this directive must be calculated based on the purchase price or the appraised market value of the property, whichever is lower. LTV should be calculated using the following formula:

$$Loan-To-Value = \frac{Amount\ of\ loan\ required\ for\ the\ property}{\text{The lowest between Purchase Price and Appraised Value of the Property}} * 100$$

Article 7: Evaluation of the property

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

1° is certified by the Rwanda Institute of Real Estate Valuers;

2° 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

3° has no credit granting or investment decision-making authority within the bank.

Article 8: Instruments that may guarantee deposits

Financial instruments including but not limited to bonds, deposit certificate and personal and complementary pension savings may guarantee the deposits required for the purpose of this directive. These instruments shall be equal or more than the deposits required by the lender.

Article 9: LTV for Residential Property Loan

A bank shall grant a credit facility to a single or group of borrowers or husband and wife in case of a joint application for the purchase/construction of a first primary residential facility, up to the equivalent cost of the house. This means that the LTV shall be 100 percent.

However, a bank shall ensure, when granting credit facilities to a borrower for the purchase/construction of a second and more primary or non-primary residential properties, that the LTV ratio does not exceed 80 percent of the value of the property.

Article 10: LTV for Commercial Property Loans

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 80 percent of the value of that property.

CHAPTER III: MISCELENIOUS AND FINAL PROVISIONS

Article 11: Supervisory Review

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

Article 12: Administrative fines

A bank that contravenes with the LTV limits is liable to an administrative fine equivalent to 1% of the disbursed amount of the credit facility. The Central Bank may take other appropriate regulatory actions on banks that fail to adhere to the regulatory requirements of this Directive.

Article 13: Transitional provision

Banks that have written policies and procedures concerning the loan-to-value restrictions prior to coming into effect of this Directive must adjust their policies and procedures in line with this Directive within a period of six (6) months from the signature of this Directive.

Article 14: Commencement

This directive shall come into effect on the date of its signature.

Done on 5./03/2019

NATIONAL BANK OF RWANDA: THE GOVERNOR

RWANGOMBWA John
Governor