

ROYAL MONETARY AUTHORITY OF BHUTAN



Directive on Housing (commercial and home) Loans, Vehicle Loans and Personal Loans 2018

Department of Financial Regulation and Supervision

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Directive on Commercial Housing Loans and Home Loans

1. Introduction

Financial institutions have to maintain sound lending standards when granting credit facilities for the purchase/construction of residential/commercial properties. In this context, loan-to-value (LTV) and Loan to Income (LTI) ratio has been adopted as a prudential measure as part of their credit risk management policies. LTV ratio helps to restrict losses in the event of default/decline in property prices by imposing a cap on the size of the loans relative to the value of the properties, while LTI helps to ensure that households are not excessively leveraged. The RMA has introduced maximum LTV limits as a macro-prudential measure to discourage speculation, prevent excessive leverage and reduce systemic risk associated with the rapid expansion of credit in the housing sector.

2. Authorization

The Royal Monetary Authority hereby issues this directive in pursuance to the objectives specified under Sections 8 (a), 8(b), 8(d) and 8(e) of the RMA Act 2010 and Section 3 (a) of the Financial Services Act 2011.

3. Application

This directive is applicable to all Banks and other Financial Institutions (collectively referred to as “Financial Institutions” or “FIs”) which are licensed by RMA to perform lending operations in Bhutan.

4. Definitions

- i. **Borrower** means a person applying for commercial housing loan or home loan.
- ii. **Owners** is defined as legal owners of the commercial property.
- iii. **Commercial Housing Loan (CHL)** shall mean loans given for the purpose of construction/purchase of house/building/apartment and shall include repair of the house/building/apartment for the purpose of generating a profit, either from business activity, resale of property or rental or lease income.
- iv. **Home Loan (HL)** means loan sanctioned for the purpose of construction of a house for personal residential purpose and shall include repair/purchase of house/apartment.
- v. **Loan to Value (LTV) Ratio** is the maximum loan limit up to which a FI shall finance, which shall be based on the appraised value of the asset, which is being purchased/constructed with a loan.
- vi. **Loan to Income (LTI) Ratio** shall be understood as follows:

(a) In the case of CHL, it shall mean as a ratio of monthly debt obligation to that of monthly gross income from Commercial Housing of the borrower, expressed in percent.

(b) In the case of HL, it is defined as ratio of total monthly debt obligation to that of monthly gross disposable income from all sources, expressed in percent.

5 Criteria (CHL & HL)

5.1 Commercial Housing Loan (CHL)

- i. CHL shall be provided only for construction/repair/purchase of house/building/apartment strictly for the purpose of generating a profit, either from business activity, resale of property or rental or lease income.
- ii. Loans for repairs shall generally be permitted after the first 5 years of occupancy or 5 years from the last period of repair. However, financial institutions shall apply its own due diligence and credit appraisal processes, while granting loan for repairs and ensure that loan has not been misused for any other purposes.
- iii. CHL shall be exclusively utilized by the borrower for the purpose indicated above.
- iv. CHL shall have a maximum loan term of 20 years.

5.2 Home Loans (HL)

- i. Home Loan shall be provided only for construction/repair/purchase of house/apartment for one unit personal dwelling.
- ii. Loans for repairs shall generally be permitted after the first 5 years of occupancy or 5 years from the last period of repair. However, financial institutions shall apply its own due diligence and credit appraisal processes, while granting loan for repairs and ensure that loan has not been misused for any other purposes.
- iii. HL shall be exclusively utilized by the borrower for the purpose indicated above.
- iv. HL shall have a maximum loan term of 20 years.

6. Loan to value ratio (LTV)

6.1 A financial institution shall compute the LTV ratio by using the following formula:

$$LTV = \frac{\sum_1^i \text{Outstanding amount of loan } i}{\text{Appraised value of property being purchased/constructed}} \times 100$$

6.2 The Board shall set the principles for valuation of the property and remedial measures in case of any violation. The appraised value of the property shall be determined by either

- i. an independent valuation agency as approved by RMA, or
- ii. by the internal valuation team of respective financial institutions which is not involved in the approval process of the loan.

7. LTV Limits

7.1 Loan to Value Ratio for CHL shall strictly be as follows:

Loan Amount	Maximum LTV
Up to Nu. 50 million	70%
More than Nu. 50 million	60%

7.2 Loan to Value Ratio for HL shall strictly be as follows:

- i. The maximum LTV for HL shall be 80%
- ii. Maximum loan amount for HL shall be Nu. 10 million

7.3 Terms and conditions for LTV ratio

- i. The financial institution shall ensure that the borrower has financial interest in the asset, which is being purchased with the loan. For this, the financial institution must ensure that the difference between the value of the asset and loan amount (known as 'down payment') is made first by the borrower.
- ii. The financial institution shall consider disbursement of the loan amount in tranches as per the financial institution's internal risk management policy.

8. Loan to Income Ratio (LTI)

Loan to income ratio is the percentage of a borrower's monthly disposable income from all sources that goes towards paying his monthly total debt obligations.

8.1 LTI for CHL

- i. FIs shall determine the monthly repayment installment of each borrower in a manner that is consistent with the property's monthly income.
- ii. Every financial institution shall compute the Loan to Income (LTI) ratio of a borrower applying for CHL in accordance with the following formula:

$$LTI = \frac{\textit{Montlydebtobligation}}{\textit{Montlyincomefromproperty}} \times 100$$

- iii. The monthly debt obligation of a borrower shall consist of the sum of the monthly repayment installment of CHL. The LTI limit for CH loan shall not be more than 100%.

8.2 LTI for HL

- i. FIs shall determine the monthly repayment installment of each borrower in a manner that is consistent with each borrower’s monthly repayment capacity.
- ii. Every financial institution shall compute the LTI ratio of a borrower applying for home loan in accordance with the following formula:

$$LTI = \frac{\textit{Totalmonthlydebtobligations}}{\textit{Monthlygrossdisposableincomefromallsources}} \times 100$$

- iii. The total monthly debt obligations of a borrower shall consist of the sum of the monthly repayment installments of all credit facilities granted by all financial institutions and other creditors.
- iv. The LTI limit for home loan should be a maximum of 70%
- v. The gross monthly disposable income from all sources, including the income from the collateral, shall consist of:

Source of Income	Income to be considered for the purpose of LTI calculation
Fixed Income	100% of current fixed income
Variable Income	Up to 70% of the average variable income for the past 6 months
Fixed and Variable Income	100% of fixed income and up to 70% of average variable income for the past 6 months

9. Supervisory Review

The RMA will assess the processes, procedures and policies put in place by a financial institution to ensure conformity with the prudential LTV and LTI limits set out in this directive.

The RMA may take appropriate regulatory action including imposing fines as per the penalty rules and regulations of RMA on financial institutions which fail to adhere to the regulatory requirements of this directive.

Directive on Vehicle Loans

1. Authorization

The Royal Monetary Authority hereby issues this directive in pursuance to the objectives specified under Sections 8 (a), 8(b), 8(d) and 8(e) of the RMA Act 2010 and Section 3 (a) of the Financial Services Act 2011.

2. Application

This directive is applicable to all Banks and other Financial Institutions (collectively referred to as “Financial Institutions” or “FIs”) which are licensed by RMA to perform lending operations in Bhutan. The financing restrictions are necessary to encourage financial prudence among buyers of motor vehicles. RMA will continue to monitor developments in the car market, and will recalibrate the financing restrictions when appropriate.

3. Definitions

Terms used within this Guideline is as defined below:

- i. **Borrower** means a person applying for vehicle loan.
- ii. **Down payment** refers to the payment which is made by the borrower in cash to cover the difference between the value of the approved loans and value of the assets to be acquired through loans.
- iii. **Loan to Value (LTV) Ratio** is the maximum loan limit up to which a FI shall finance, which shall be based on the value of the vehicle, which is being purchased with a loan.
- iv. **Loan to Income (LTI) Ratio** is defined as ratio of total monthly debt obligation to that of monthly disposable income from all sources, expressed in percent.
- v. **Disposable Income** means gross income minus taxes that is net income.

4. Loan to Value ratio (LTV)

4.1 A financial institution shall compute the LTV ratio by using the following formula:

$$LTV = \frac{\textit{Outstanding amount of loan}}{\textit{Appraised value of vehicle being purchased}} \times 100$$

4.2 The LTV ratio for vehicle loan shall be as follows:

(i) Service oriented vehicles (bus, trucks and machineries such as Excavator, Bull Dozer, Pay Loader): 50%

(ii) All other vehicle loans (including staff vehicle loans of financial institution): 30%

(iii) The property value indicated above is the purchase price of vehicle including relevant taxes.

5. Loan to Income Ratio (LTI)

5.1 Loan to income ratio is the percentage of a borrower's monthly disposable income from all sources that goes towards paying his monthly total debt obligations.

5.2 Every financial institution shall compute the LTI ratio of a borrower applying for Vehicle loan in accordance with the following formula:

$$LTI = \frac{\text{Total monthly debt obligation}}{\text{Monthly disposable income from all sources}} \times 100$$

5.3 The total monthly debt obligations of a borrower shall consist of the sum of the monthly repayment instalments of all credit facilities granted by financial institutions and other creditors.

5.4 The maximum LTI limit for Vehicle Loan shall be 70%

5.5 The monthly disposable income from all sources, including the income from the collateral, shall consist of:

Source of Income	Income to be considered for the purpose of LTI calculation
Fixed Income	100% of current income
Variable Income	Up to 70% of the average variable income for the past 6 months
Fixed and Variable Income	100% of fixed income and up to 70% of average variable income for the past 6 months

6. Terms and Conditions

- i. The term of vehicle loan shall be a maximum period of 5 years.
- ii. The loan shall be disbursed only upon the full down payment made by the borrower and upon submission of all the required documents necessary for the purchase of the vehicle.

7. Supervisory Review

The RMA will assess the processes, procedures and policies put in place by a financial institution to ensure conformity with the prudential LTV and LTI limits set out in this directive.

The RMA may take appropriate regulatory action including imposing fines as per the penalty rules and regulations of RMA on financial institutions which fail to adhere to the regulatory requirements of this directive.

Directive on Personal Loans

1. Authorization

The Royal Monetary Authority hereby issues this directive in pursuance to the objectives specified under Sections 8 (a), 8(b), 8(d) and 8(e) of the RMA Act 2010 and Section 3 (a) of the Financial Services Act 2011.

2. Application

This directive is applicable to all Banks and other Financial Institutions (collectively referred to as “Financial Institutions” or “FIs”) which are licensed by RMA to perform lending operations in Bhutan.

3. Definitions

- i. **Borrower** means a natural person applying for personal loan;
- ii. **Personal loan (PL)** shall mean loan given purely for personal consumption purpose and shall include personal loan, consumer loan, GE loan etc.
- iii. **Financing Limit** is the maximum loan limit up to which a FI shall finance.
- iv. **Loan to Income (LTI)** is defined as ratio of total monthly debt obligation to that of monthly gross disposable income from all sources, expressed in per cent;

4. Criteria for PL

- i. Products under the PL shall be defined by the FIs and approved by the RMA.
- ii. PL shall have a maximum loan limit of Nu.5,00,000 with a maximum loan term of 5 years.

5. Loan to Income Ratio (LTI)

- i. FIs shall determine the monthly repayment installment of each borrower in a manner that is consistent with monthly income.
- ii. Every financial institution shall compute the LTI ratio of a borrower applying for PL in accordance with the following formula:

$$\text{LTI} = \frac{\text{Total monthly debt obligations}}{\text{Monthly gross disposable income from all sources}} \times 100$$

- iii. The total monthly debt obligations of a borrower shall consist of the sum of the monthly repayment installments of all credit facilities granted by financial institutions, and other creditors.
- iv. The LTI limit for all types of PL loan should be 70%
- v. The gross monthly disposable income from all sources, including the income from the commercial property, shall consist of:

Source of Income	Income to be considered for the purpose of LTI calculation
Fixed Income	100% of current income
Variable Income	Up to 70% of the average variable income for the past 6 months
Fixed and Variable Income	100% of fixed income and up to 70% of average variable income for the past 6 months

6. Supervisory Review

The RMA will assess the processes, procedures and policies put in place by a financial institution to ensure conformity with the prudential LTV and LTI limits set out in this directive.

The RMA may take appropriate regulatory action including imposing fines as per the penalty rules and regulations of RMA on financial institutions which fail to adhere to the regulatory requirements of this directive.