



Press Release

Relaxed Lending Rules for Residential Mortgages

The Central Bank of The Bahamas is relaxing the guidelines for domestic banks and credit unions on the minimum equity injection requirement for residential mortgages. While this is not anticipated to have a significant impact on personal lending, it should reduce the cost burden for suitably qualified borrowers and allow some additional individuals to qualify for credit.

With immediate effect, the mortgage indemnity insurance is removed from the Central Bank's stipulation for borrowers to qualify for a reduced equity or down payment amount on residential mortgages. In the absence of the insurance, the minimum down payment for such mortgages was 15 percent. Moreover, in line with the Central Bank's relaxed rules for other personal lending, issued in August 2022, financial institutions may also vary or set lower down payment requirements for residential mortgages, in line with their internal frameworks for assessing and managing individual borrower risks.

However, lending institutions are directed to observe that personal lending is still subject to the borrower's total debt service ratio remaining within a prudent limit of 50 percent. The exceptions are debt restructurings and/ or consolidations for borrowers who are already indebted beyond this threshold, and for whom outstanding obligations are not increased as a result of the restructuring and/ or consolidations.

Lending institutions are also directed to exercise continued prudence around the amount of credit extended as a percentage of the appraised valuation of the real estate, or the resulting loan-to-value (LTV) ratio. The LTV ratio also determines the risk-weighted treatment for mortgages when estimating banks' capital adequacy. In particular, in accordance with The Bahamas Capital Regulations, 2022, residential real estate exposures are weighted at either 25 percent, 50 percent, or 100 percent, respectively, according to whether the LTV is less than or equal to 60 percent, between 60 and 80 percent, or exceeds 80 percent.

The Central Bank will continue to monitor the impact of credit trends on the outlook for the external reserves and domestic financial stability. If conditions justify interventions, the Central Bank may tighten or relax the minimum qualification standards for new credits or enhance any of its macro-prudential or micro-prudential tools as deemed necessary. At present, neither monetary policy nor financial stability concerns are heightened.

29 December 2023 ■