Press Release

Relaxed Lending Rules for Domestic Credit

The Central Bank of The Bahamas is relaxing the guidelines for domestic banks and credit unions around the qualification criteria for provision of credit to the private sector. This takes account of the domestic economy's increased capacity to sustainably absorb more credit expansion, given the potential for credit growth to stimulate greater imports and increase the net use of foreign exchange. The favourable outlook for the external reserves is expected to be maintained. In particular, impact on credit growth, is expected to be very moderate, given continued risks around the elevated average delinquency rate for private sector credit.

Effectively immediately, lending institutions may, on a case-by-case basis, approve applications for new personal loans, subject to the total debt service ratio for the facility and any pre-existing obligations not exceeding 50%. That is, unless stipulated regulatory requirements have been imposed by the Central Bank on specific banks or credit unions. This increases the total debt service ratio from the current range of 40% to 45%. The total debt service ratio is calculated as the sum of total monthly principal and interest payments divided by the total monthly income of the borrower or borrowers.

Except in the case of mortgages, lending institutions may also tailor the borrower equity or down payment requirement in accordance with their internal credit risk management frameworks. In particular, subject to the total debt service ratio, and other such risk management criteria, lending institutions may grant loans of up to 100% of the borrower's financing requirement. However, the minimum equity requirement for loans secured by residential mortgages remains at 15%. When secured by mortgage indemnity insurance, the equity requirement may be reduced to 5%.

Financial institutions are expected to continue to manage lending risks on both a case-by-case and aggregate basis, to achieve further reductions in the average non-performing loans rate. In this regard, supervisory expectations and requirements around prudential lending standards will remain tailored for institutions which are subject to any specific oversight by the Central Bank.

The Central Bank will continue to monitor the impact of credit trends on the outlook for the external reserves and domestic financial stability. The Bank will adjust its monetary and prudential policies as necessary to ensure continued stability and sustainability in the outlook.

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