

Chapter 4

Capital resources

4.2A Credit risk capital requirement

Application

4.2A.1 **R** This section applies to a *firm* carrying on any *home financing* connected to *regulated mortgage contracts* or *home financing and home financing administration* connected to *regulated mortgage contracts* see ■ MIPRU 4.2.23 R .

Purpose

4.2A.2 **G** ■ MIPRU 4.2A sets out how a *firm* should calculate its *credit risk capital requirement*.

4.2A.3 **G** A *firm* may use credit risk mitigation to reduce the credit risk associated with an *exposure*. The *firm* should refer to ■ MIPRU 4.2C to determine the effect of credit risk mitigation on its *risk weighted exposure amounts*.

Calculation of credit risk capital requirement

4.2A.4 **R** The *credit risk capital requirement* of a *firm* is 8% of the total of its *risk weighted exposure amounts* for *exposures* that:

- (1) are on its balance sheet; and
- (2) derive from:
 - (a) a loan entered into; or
 - (b) a *securitisation position* originated; or
 - (c) a *fund* position entered into; on or after 26 April 2014; and
- (3) have not been deducted from the *firm's capital resources* under ■ MIPRU 4.4.4 R or ■ MIPRU 4.2BA;

calculated in accordance with ■ MIPRU 4.2A.

4.2A.4A **R** Loans, *securitisation positions* and *fund* positions entered into before 26 April 2014 are excluded from the *credit risk capital requirement* calculation.

4.2A.5 **R** Any arrangements entered into on or after 26 April 2014 which increase the amount of a loan already advanced or change the security to a loan already

advanced or change the contractual terms (other than if the *firm* is exercising forbearance) of a loan already advanced will be subject to the credit risk capital requirement under ■ MIPRU 4.2A.4R (2)(a) provided that, where the arrangements only increase the amount of a loan already advanced, such requirement shall only apply to the amount of such increase.

4.2A.5A G The arrangements excluded from the *credit risk capital requirement* include:

- (1) a loan acquired by a *firm* on or after 26 April 2014 if that loan was made before 26 April 2014;
- (2) arrangements made as a result of forbearance procedures, including:
 - (a) a change in the basis of interest payments from variable to fixed rate; or
 - (b) a change from a repayment mortgage to interest only; or
 - (c) the capitalisation of interest which increases the principal outstanding, where there is no element of new borrowing.

4.2A.5B G A *firm* may exclude loans or *home reversion plans* entered into before 26 April 2014 where they meet the conditions in ■ MIPRU 4.2.14 R, applied in accordance with ■ MIPRU 4.2.15 E to ■ MIPRU 4.2.17 E.

4.2A.6 R Unless a *rule* requires otherwise, the *exposure* value of an asset or liability held on the balance sheet of a *firm* must be its balance sheet value.

Exposure classes

4.2A.6A R A *firm* must assign each *exposure* to one of the following *exposure* classes:

- (1) loans or contingent loans secured on real estate property;
- (2) other loans;
- (3) *securitisation positions*;
- (4) *exposures* in the form of *funds*; or
- (5) past due items.

4.2A.7 R

4.2A.8 R

Risk weights

4.2A.9 R For the purposes of applying a *risk weight*, the *exposure* value must be multiplied by the *risk weight* determined in accordance with ■ MIPRU 4.2A.10 R, ■ MIPRU 4.2A.10A R, ■ MIPRU 4.2A.10B R, ■ MIPRU 4.2A.11 R, ■ MIPRU 4.2A.12 R or ■ MIPRU 4.2A.17 R, unless it is deducted from *capital resources* under ■ MIPRU 4.4.4 R or ■ MIPRU 4.2BA.

- 4.2A.10 R** To calculate *risk weighted exposure amounts* on exposures secured by mortgages on residential property, *risk weights* must be applied to all such exposures, in accordance with ■ MIPRU 4.2F.4 R to ■ MIPRU 4.2F.10 G.
- 4.2A.10A R** To calculate *risk weighted exposure amount* on exposures secured by mortgages on commercial property, *risk weights* must be applied to all such exposures in accordance with ■ MIPRU 4.2F.37 R.
- 4.2A.10B R** To calculate *risk weighted exposure amounts* on other loans, *risk weights* must be applied to all such exposures in accordance with ■ MIPRU 4.2F.38 R.
- 4.2A.11 R** To calculate *risk weighted exposure amounts* on exposures in funds, *risk weights* must be applied to all such exposures, in accordance with ■ MIPRU 4.2F.39 R to ■ MIPRU 4.2F.49 R.
- 4.2A.12 R** To calculate *risk weighted exposure amounts* for securitised exposures, *risk weights* must be calculated in accordance with ■ MIPRU 4.2BA (Securitisation).
- 4.2A.13 R**
- 4.2A.14 G**
- 4.2A.15 R**
- 4.2A.16 R**
- 4.2A.17 R** A firm must apply ■ MIPRU 4.2F.50 R to ■ MIPRU 4.2F.55 R to all past due items
- 4.2A.17A R**
- (1) The application of *risk weights* must be based on the *exposure class* to which the *exposure* is assigned and, to the extent specified in ■ MIPRU 4.2BA and ■ MIPRU 4.2F (Exposures and risk weights), its credit quality.
 - (2) Credit quality must be determined by reference to solicited credit assessments of *eligible ECAs* where these are available, in accordance with ■ MIPRU 4.2E (Use of external credit assessments).
- 4.2A.17B R** Where an *exposure* is subject to credit risk mitigation, the *risk weighted exposure amount* applicable to that item may be modified in accordance with ■ MIPRU 4.2C (Credit risk mitigation).
- 4.2A.18 G**